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POLICY AND PROGRAM ISSUES: FOOD AND AGRICULTURE

A REPORT

PREPARED FOR

THE

SECRETARY OF AGRICULTURE

BY

AN INTERDEPARTMENTAL TASK FORCE
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POLICY AND PROGRAM ISSUES: FOOD AND AGRICULTURE

Report of an Interdepartmental Task Force

PREFACE

This report was prepared upon recommendation of the Agricultural Policy Working Group, a staff group of the Cabinet-level Agricultural Policy Committee. The central purpose of the report is to provide a compendium of major policy and program issues related to food and agriculture likely to confront the new Secretary of Agriculture in the next six months. A major part of the report is devoted to identification and discussion of the issues. The report also contains a brief overview of the economic situation and short-term outlook for agriculture, a set of key statistical indicators of performance of the sector in recent years; a list of regularly scheduled economic and statistical reports; and a list of pending USDA budget supplementals for FY 1977.

The report was prepared under direction of a steering committee comprised of career professionals in several agencies of the Executive Branch. Members of the steering committee listed on the succeeding page are key persons who might be drawn upon for discussion of the report or additional analyses.

Numerous interrelated policy and program issues are likely to require decisions by the new Secretary. Multiple options depending upon policy and program objectives exist for most of those issues. We have identified some of the major options and their implications. However, we make no recommendations as to preferred options or courses of action.

In several respects, 1977 may prove to be a "watershed" year in development of food agricultural policy. The confluence of economic events in agriculture and impending expiration of major legislative authorities for food and agriculture programs provides an opportunity for reexamination of fundamental public policy issues. Although the focus of this report is upon policy and program issues likely to require the immediate attention of the Secretary, decisions reached in early 1977 may have long run impacts upon producers, consumers, and the future course of events in the food and agriculture sector, nationally and internationally. It is hoped that this report will serve as a useful initial reference for incoming officials as they begin to formulate policies and grapple with program issues.

Kenneth R. Farrell, Chairman
Deputy Administrator
Economic Research Service
U.S. Department of Agriculture

December 1976

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POLICY AND PROGRAM ISSUES: FOOD AND AGRICULTURE

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I. ECONOMIC SITUATION AND OUTLOOK

The economic outlook for food and agriculture in 1977 is marked by a high degree of uncertainty. Following large grain crops, record output of livestock products, increased competition in foreign markets, and a pause in U.S. economic growth, farmers' product prices during the fourth quarter of 1976 averaged the lowest since early 1973. Retail prices of U.S. farm foods also fell in the fourth quarter, but they were still more than 40 percent above 1972. Meanwhile, the farm-retail price spread for the composite market basket of foods reached an all-time high.

Continued inflation and rising production expenses are working against lower farm product prices to squeeze net farm income. Preliminary estimates indicate that in current dollars realized net farm income in 1976 approximated the 1975 level, although the rate for the fourth quarter dropped sharply.

Current economic conditions and the outlook for 1977 by no means have uniform impact throughout the farm sector. Large supplies and relatively low farm prices prevail for wheat and red meat. Farm level wheat prices have fallen to near the loan rate in some areas and large volumes are being placed under loan. Ending wheat stocks for the 1976-77 marketing year will be the largest since 1962-63. Ending stocks of rice are also projected at relatively high levels. On the other hand, supplies of soybeans and cotton are tight relative to demand and farm prices are relatively high for both. Ending stocks of soybeans could be as low as those in 1972-73--the year of the embargo.

There seems to be general agreement about economic conditions for the first half of 1977--relatively slow growth in the domestic market and an easing in foreign demand for U.S. farm products. Farm prices should strengthen slightly from fourth quarter 1976 levels but remain below first half 1976 levels. We expect food prices to be relatively stable in the first half of 1977, rising 1 to 2 percent per quarter. First half prices will average around 3 percent above a year earlier.

By late spring, prospects for 1977 crops as well as the status of the U.S. and world economies will loom larger in determining market conditions. With world grain crops up nearly 8 percent in 1976 and prospects for partial replenishment of ending stock levels, large 1977 crops in the U.S. and rest of the world would lead to problems of excess supplies and downward pressure on farm prices. But short crops in the U.S. in concert with short crops in even a few other countries would greatly alter world market conditions, pushing up farm commodity and food prices.

Parts of the Midwest reported very dry fall soil conditions. This means we could face another year where favorable crop yields will depend on weekly rains during the growing season.

Farmers' responses to the less favorable price/cost relationships mean they will probably shift 1977 acreage toward soybeans and cotton. Although red meat production for the first half of 1977 will largely reflect

production decisions made by farmers in recent months, output in late 1977 and in 1978 will be conditioned by 1977 crop production.

In any event, it is impossible to accurately forecast 1977 crop production and therefore the economic climate farmers will face in the second half of 1977. It could be a year of continued emerging surpluses and low farm prices and incomes. It could be a year in which the tenuous world food supply/demand balance is shifted again toward tight supplies and high prices. Viewed on a commodity-by-commodity basis, surpluses and shortages could exist simultaneously. Each outcome poses significant policy and program issues in 1977. Careful monitoring of world conditions is required.

The following are brief highlights of the outlook for the first half of 1977.

Farm Price and Income Prospects

...Farm prices and incomes in late 1976 were running at levels below those earlier in the year and below 1975 levels. Realized net farm income for 1976 approximates 1975 income, but total net income (reflecting inventory changes) is below that of 1975. Income in the first half of 1977 will strengthen, but will continue to be below the levels of the first half of 1976.

...In the latter part of 1977, livestock prices and returns to farmers will likely be higher than during the last half of 1976 and early 1977. Depending on U.S. and world crop productions and cattle cycle developments, net farm income for 1977 as a whole could average close to the 1976 level.

World Demand and U.S. Exports

...Nearly 8-percent larger world grain crops for 1976 have eased the pressure on world food supplies and stiffened the competition for U.S. grain in world markets.

...The USSR has accounted for much of the improvement in the world food supply; Soviet purchases of U.S. grain could drop by as much as half from the 1975/76 total.

...However, poor crops in parts of Europe, a disappointing monsoon in South Asia, expanding livestock production in Europe and Japan, and very low world carryin stocks of grain will help to maintain U.S. exports in 1976/77.

...The value of exports will likely match the $22.8 billion of 1975/76, partly because of higher prices for soybeans, fibers, and tobacco.

...But export volume may fall 6 to 8 percent from the record shipments in 1975/76.

Domestic Demand

...General economic growth may continue sluggish into early 1977. Employment and consumer income are likely to rise more slowly than in much of 1975 and 1976.

...Gains in consumer buying power are expected to lead to moderate expansion in domestic markets for food and fiber and in the use of grain for feed.

...Large food supplies will continue to slow the rise in retail food prices and help dampen the inflationary pressures in the nonfarm sector of the economy. For all of 1977, retail food prices may average 3-4 percent above 1976 depending upon world crop conditions and economic activity.

Major Crops

Soybeans: Reduced plantings and poor yields reduced the 1976 crop nearly a fifth. Reduced supplies and expanded domestic and foreign demand will likely keep the season average farm price $1.50 to $2.50 per bushel above the $5 average of 1975/76. Higher prices will likely ration beans, resulting in reduced crushings, smaller exports, and minimum carryover stocks. Very tight world stocks are in prospect, despite expected larger Brazilian production.

Cotton: The 1976 crop is larger but export demand is stronger, causing a tight supply-demand situation and pointing to reduced domestic use, minimum U.S. carryover stocks, and higher prices.

Wheat: Larger supplies reflect another big crop and increased carryin stocks. Domestic use will increase due to an expected doubling of wheat feeding. But improved world crops will likely reduce U.S. exports. Heavy loan activity and a sizable gain in carryover stocks is indicated, with prices to farmers averaging some 10 to 20 percent below the $3.50 per bushel of 1975/76.

Feed Grains: Larger carryin stocks and a 5 percent larger 1976 corn crop mean more feed is available. Domestic use may increase 5 to 7 percent, about half the increase in 1975/76, as gains in cattle feeding moderate and as gains in poultry and milk output slow. But larger world grain supplies will likely curb U.S. grain exports. As a result, a slight further buildup in carryover stocks is indicated, and the season average price of corn will likely run a little below the $2.55 per bushel of 1975/76, depending in part on developing prospects for 1977 crops.

Livestock Products

...Low prices and reduced returns to livestock producers, along with the cyclical downswing in cattle numbers, will slow the advance in livestock production in the first half of 1977.

Beef Cattle: Following 1976's larger than expected gains in beef output, together with declining prices and reduced returns, fewer cattle were placed on feed this summer. This and a smaller cattle herd will likely reduce beef output in 1977. In a growing domestic market, the cut back in beef production is expected to strengthen cattle prices, but increases will be moderated by further gains in output of hogs and poultry.

Hogs: The expansion underway for hogs will boost first half 1977 pork production around a fifth above a year earlier, keeping pressure on hog prices. However, hog prices should rise from low fall levels, if beef production is cut back and consumer demand continues to expand.

Poultry: Broiler production in 1976 rose 12 to 14 percent, trimming prices despite larger demand. Lower prices and reduced earnings are slowing output gains. But with first half 1977 broiler output up only modestly from a year earlier, some price strength is likely from low fall levels. A reduction in turkey production is likely.

Milk: Farm and wholesale prices of milk, butter, and cheese have declined under pressure of the big rise in milk output in 1976. However, milk production in early 1977 probably will only run a little above a year earlier. With big supplies of milk, butter, and cheese, prices probably will run close to support levels during the first half of 1977.

Inputs and Production Expenses

...Declining fertilizer prices and slower increases in prices of other inputs will moderate the rise in production expenses during 1977. However, large use of some inputs and a further rise in fuel oil and gasoline prices could raise total production expenses around 7 percent, about the same as 1976's increase.

Prepared by: Rex Daly, James Donald, and Donald Seaborg, ERS. For a review of longer run outlook see Cecil Davison and Milton Ericksen, "Alternative Economic Settings for Agriculture, 1977-81," Agricultural-Food Policy Review, AFPR-1, ERS, USDA December 1976.

II. MAJOR ISSUES

Introduction

Impending expiration of the Agriculture and Consumer Protection Act of 1973 and the Rice Production Act of 1975 will require Congressional attention in the first months of the 95th Congress. Three broad options are: (1) develop comprehensive new legislation, (2) extend existing legislation with minor modifications, and (3) allow legislation to expire, which would result in reversion to permanent legislation requiring parity based price supports and authorization of marketing quotas.

Although both the 1973 and 1975 Acts are in force for the 1977 crop year, immediate attention is required because of the schedule mandated by the Congressional budget process and the practical need to have programs in place before the 1978/79 crops are planted. The Congressional budget process requires that new legislation for 1978/79 crops be reported out of committee by May 15, 1977. Planting of 1978/79 winter wheat begins in September 1977.

The 1973 Act includes the major commodity programs for wheat, feed grains, and cotton. It also authorizes the price support incentive payments for wool producers, the beekeeper indemnity program, the dairy indemnity program, and the Class I base plans in federal order milk markets. The 1973 Act also contains authorizing legislation for The Food Stamp Program that expires September 30, 1977.

Several additional commodity programs are not expiring but their revision or replacement may be proposed in the new Congress. These include dairy, peanuts, tobacco, and ELS cotton. Of these, there has been considerable pressure to modify the peanut program and these efforts may be renewed in the next session of Congress.

The long standing Sugar Act expired December 31, 1974. But, sugar is not without regulation because of Executive Branch authorities. The President retains the authority to impose quotas on sugar imports. He also has limited tariff authority. Because Congress has little influence on these authorities and because current sugar prices at the producer level are low, it is anticipated that Congress will also consider reenactment of a sugar program.

Several important policy and administrative decisions concerning international agricultural affairs will be required in early 1977. One of the most important pertains to impending expiration of authorities under Public Law 480. Grain reserve policies are integrally related to domestic price and income policies and will need to be considered in that context. However, there are vitally important international dimensions also to be integrated into policy and program decisions. Other immediate issues relate to the multilateral trade negotiations now in process, international wheat agreements, and a set of policy issues arising from the initiatives of UNCTAD, including international commodity agreements.

In the realm of domestic food aid programs, statutes authorizing the food stamp, child nutrition and food distribution programs expire during 1977, and thus, require basic policy as well as programmatic decisions early in the year. The Department administers a multitude of marketing and regulatory programs, some of which will require decisions by the Secretary in the first months of 1977. In addition, there are several issues likely to be raised in a legislative policy context for which a Department position needs to be formulated in the early months of 1977--research and promotion programs, regulatory reform of the trucking industry, and producer bargaining legislation are examples.

We have included in the report a list of "emerging issues"--issues which may arise in early 1977 requiring administrative decisions (e.g., bilateral trade issues under sections 201 and 301 of the Trade Act of 1974) or development of policy portions (e.g., no-strike legislation, enforcement of section 11 of the Capper-Volstead Act, Fisheries Assistance Act). The timetable for decisions on these issues is uncertain depending upon findings of other agencies and the Congressional legislative timetable. In any event, most seem likely to require decision in the near future if not within the first six months of 1977.

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Impacts of Reverting to Basic Legislation When the Agriculture and Consumer Protection Act of 1973 and Rice Production Act of 1975 Expire, ERS-641, ERS, USDA, August 1976.

COMMODITY ISSUES RELATED TO EXPIRATION OF THE 1973 ACT

Price Policies for Wheat, Feed Grains, and Upland Cotton

Issue

The basic issue is the level and purpose of price guarantees in replacement legislation. Related questions include: On what basis should support rates be set? What should be the magnitude of the price differential between loan rates and target prices if programs similar to the 1973 Act are continued? To what degree should the Secretary of Agriculture be given discretion in setting or adjusting loan rates and target prices? What would be the effects on export markets, consumer prices, and budget outlays? If multi-year legislation is proposed, should an adjustment mechanism be built in to adjust loan rates and/or target prices?

Background

A unique provision of the 1973 Act was the target price-deficiency payment concept, which was designed to provide a basis for varying support payments to producers inversely with the market price and to permit market forces to allocate resources while providing a degree of income protection to farmers. No payments are made if the market price is at or above the target price. If the market price goes below the target price, deficiency payments are based upon the smaller of the differences between the target price and the market price or the target price and the loan rate.

Deficiency payments are viewed as income supplements to producers, moderating the effects of short-term price fluctuations. With target prices, the income of farmers can be supported without having to have high loan rates, but the budget exposure can be quite high.

A mechanism was specified in the 1973 Act to adjust target prices during the last 2 years of the Act. The adjustment is based on a formula that relates changes in USDA's Index of Prices Paid for Production Items, Interest, Taxes, and Wage Rates (PPI) to changes in the 3-year moving average of individual crop yields.

Bounds for wheat and feed grain loan levels were prescribed, and the Secretary was given wide latitude in setting levels within these bounds. Loan rate bounds for wheat are from $1.37 to 100 percent of parity ($4.86 in November 1976). For corn (other feed grains are set relative to corn), the bounds are $1.10 to 90 percent of parity ($2.93 in November 1976). For cotton, the loan rate is 90 percent of the previous 3-year average price for American cotton in world markets unless current world prices are lower, in which case this price becomes the base.

The 1973 Act was legislated in a period of rising product prices. Through September 1976, market prices have remained above the loan rates and target prices making the support prices inoperable. However, with sharply reduced market prices for wheat, both loan and deficiency payment provisions will be operative for that commodity in 1976-77.

Parity prices, traditionally the basis for setting support rates, are considered by many to be an arbitrary and outdated measure of an equitable price. Unit production costs have been proposed as a basis for establishing support rates. Proponents suggest that the cost of production measure relates more directly to the price producers would need to receive to earn an equitable return. However, there are inherent problems of determining which cost components to include in a cost of production measure. Specifically, should land and managment charges be included and if so how should they be measured? Production costs are highly variable over time and among farms and regions. Support at average cost of production could assure profits for some producers but not cover the costs of others.

Another consideration in deciding upon support levels is the relationship between domestic support levels and world market prices. If domestic support prices are above world prices, the result will be reduced exports or a need to pay export subsidies to meet foreign competition. High U.S. price supports may also function as an umbrella for world prices, stimulating production elsewhere.

If production exceeds utilization at the supported price, stocks accumulate. Policy actions to offset surpluses could be any one or a combination of production controls, holding of stocks by the Government, or subsidized exports, including foreign aid shipments. These actions all involve a cost. Support rates, production controls, and stock accumulation provisions are all interrelated. A comprehensive program would require attention to them.

Another consideration in tying supports to a specified measure, whether parity or cost of production, is the price relationships among crops. Producers may produce on the basis of support levels rather than on the basis of market expectations. Distortion in support rates could result in a surplus of one crop at the same time there is a shortage of a substitutable crop.

For a program that has both loan rates and target prices, there is the consideration of the differential between loan rates and target prices. This differential relates to the potential level of deficiency payments and budget exposure. This factor is especially important in considering mechanisms to adjust loan rates and target prices over time. Automatic adjustments could lead to wide differentials resulting in large deficiency payments. Automatic adjustment mechanisms may result in support levels either too high or too low in relation to emerging market conditions. Adjustment formulas based on production costs could lead to a support price spiral if supports affect production costs. This is especially likely if costs are defined to include land charges.

The $20,000 per-person payment limitation included in the 1973 Act could be reconsidered. There is a question of whether the payment limit should be increased to take account of inflation. Payment limits are not now applicable to CCC loans. High supports in the form of loans would not be affected by payment limits, but high supports in the form of target

prices could be substantially affected. They could be a factor in reducing Government costs and could also be a factor in limiting farmer's participation if production adjustments are required in order to be eligible for support. The structure of a payment limit might be quite different depending on its purpose which could include: (1) channeling benefits to smaller farms, (2) eliminating the very largest payments, (3) limiting total Government expenditures, or (4) being crop selective in limiting payments.

Options

A. Loan rate and target price levels

1. Loan rates above average market clearing levels (high loan rates) and no target prices. Standby production control provisions would be needed to prevent the buildup of surpluses. This option would provide domestic price stability, but export subsidization programs would be needed to move production into foreign markets.

2. High loan rates and high target prices. This option has all of the implications of (1) above plus the potential for large direct Treasury costs if the loan rate-target price differential were large. Production controls could serve a dual function of preventing stock buildup and stimulating prices in order to reduce deficiency payments.

3. Loan rates below average market clearing levels (low loan rates) and variable target prices. This option would provide a price floor in the case of very low prices while providing income protection through the target price deficiency payment. Depending on the loan-target price differential, there would potentially be large Treasury costs. Price instability could be relatively greater than for options (1) and (2).

4. Low loan rates and no target prices. This option provides a price support floor but no direct income transfer payments. The likelihood of the Government acquiring stocks would be reduced. Price instability would be similar to option (3).

B. Price support adjustment provisions:

1. Allow the Secretary considerable administrative discretion in setting loan rates and target prices. The Secretary could make adjustments in response to changing supply and demand conditions.

2. Adjust support rates on the basis of cost of production. First, the difference between setting supports at the cost of production or as a proportion of cost of production and using changes in the cost of production to adjust supports should be recognized. Since support rates are capitalized into land values and land values are included in cost of production, this adjustment mechanism would result in a built-in upward cost-price spiral.

3. Adjust support rates on the basis of aggregate price indexes. Price indexes that measure cost levels of farm-related inputs would be considered. Several different indexes could be used, depending on the commodity and inputs used in its production. Input price indexes would be a proxy for changes in costs faced by farmers, but they do not reflect changes in input combinations or yields as would unit cost of production measures as is now the core, such indexes could be adjusted to reflect changes in productivity.

Prepared by: Milton Erickson, J.B. Penn, Jim Driscoll, Russel Barlowe (ERS), and Bruce Gardner (CEA).

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Farm and Food Policy 1977, Committee Print 75-404, Senate Committee on Agriculture and Forestry, Sept. 1976.

Economic Issues in 1977 Farm Legislation, Bruce Gardner, CEA Staff Paper, Dec. 1976.

Disaster Payments, Crop Insurance, and Emergency Loans

Issue

Disaster Payment Program (DPP) provisions expire with the Agriculture and Consumer Protection Act of 1973. The DPP program cost $840 million during the first 2 years of operation (with no direct cost to producers). Because of the popularity with farmers, rural businesses, and credit suppliers, there will be demands to continue some type of risk protection program.

Background

The Government has offered risk protection to farmers through the Federal Crop Insurance Corporation (FCIC), a federally chartered agency, since 1939. FCIC offers insurance on 22 crops. Not all producers are able to purchase FCI because the enabling legislation requires FCIC to operate an actuarially sound program with authority to refuse insurance in areas of excessive risk. Even where available, FCIC generally has a low level of participation. Only about 17 percent of the eligible acreage of wheat, feed grains, and cotton was insured in 1976.

Risk protection is also provided by special emergency loan programs. If a county or group of counties is declared an emergency area by the Farmer's Home Administration (FmHA) or by the Secretary, subsidized loans from FmHA are made available to cover losses, make physical adjustments, and meet operating expenses to allow continued operation. Although losses are the criterion for loan eligibility, this program is not operated on an actuarial basis. As a result, many counties are declared eligible for 10 to 15 consecutive years. The interest, loan servicing, and administration of these loans amount to 20-25 percent of the face value of the loans, which have ranged from $300 to $700 million in recent years.

Loans may also be available to producers on the basis of a Presidential declaration of a disaster area.

The Agricultural Stabilization and Conservation Service offers emergency area assistance including: (1) sale of CCC-owned feed grains, (2) granting grazing and haying privileges on retired croplands, and (3) emergency conservation measures.

The private insurance industry has traditionally offered protection against hail and fire but has not been successful in offering widely available multiple-peril crop insurance.

The 1973 Act initiated the DPP to protect producers of corn, grain sorghum, barley, wheat, and upland cotton against loss of income from natural hazards that either prevent planting a crop or that cause crop yields to be abnormally low. The DPP was adopted with little consideration of how the specific provisions would work and with little knowledge of likely Treasury costs. The DPP has been much larger than FCIC both in terms of indemnities and participation levels. Indemnities were $126 million during 1974 and 1975 for FCIC compared with $840 million for DPP.

Several problems have become apparent, including:

1. Determination of eligibility for benefits is based on two-thirds of the "established yield" (administratively determined, generally based on a 10-year average). The payment to eligible farms is made on the entire one-third shortfall. But, one bushel or pound of production above the critical eligibility level means a producer gets no payment at all.

2. Provisions allowing producers to receive payments if prevented from planting are difficult to administer and subject to abuse since it is often a matter of judgment whether plantings could be made under marginal moisture conditions.

3. Cotton receives special treatment under the prevented planting option since benefits can be received even if another crop is later planted and harvested. However, planting a substitute crop for wheat or feed grains reduces prevented planting payments proportional to the production from the substitute crop.

The DPP has been beneficial to many producers, especially in high-risk areas where FCI is unavailable. In one sense, DPP is in competition with the FCIC because producers eligible for the DPP may be less inclined to purchase FCIC insurance where it is available.

Private industry efforts to provide miltiple-peril crop insurance have been unsuccessful because of the inability to spread the risks over time through reinsurance, a lack of data on which to base rates, and competition with the FCIC, which receives an appropriation covering administrative and operating expenses.

Options

A wide range of options may be considered, including:

1. Renew DPP for 1 year or longer with no changes in FCIC or FmHA offered programs.

2. Allow DPP to expire with no changes in FCIC or FmHA programs.

3. Allow DPP to expire but invite the private insurance industry to offer multiple-peril crop insurance. Make actuarily sound reinsurance available through FCIC as a means of spreading risk.

4. Drop DPP but expand the FCIC program nationwide with commensurate appropriations for operating and administration costs. Premium subsidization and increased sales efforts would be necessary to obtain adequate participation. To obtain a 40-percent participation rate would require a sales and premium subsidy equal to 33 percent of the total premium. This would be in addition to administration costs.

5. Renew but modify the DPP to make protection more in line with the needs of producers and remove some of the unsound provisions, including the special treatment for cotton.

6. Eliminate the current overlap between programs. This could be accomplished in a number of ways, such as requiring the purchase of crop insurance, if available, in order to be eligible for disaster payments or by not offering DPP to producers eligible to purchase FCI.

7. Develop a broad program which combines FCIC and FmHA emergency loans to complement each other in achieving nationwide coverage for all major crops. Each program would probably require modification so that the two would reinforce each other to minimize costs. Estimates of the overall cost for a mixed strategy indicate that costs could be held to about 25 percent of coverage for any program level.

Implications

Congress will determine the extent of coverage of natural disasters faced by farmers, the rate at which they are indemnified, and the costs of this protection to taxpayers. The ability of farmers to purchase inputs and obtain credit in years of low crop yields may depend upon the level of disaster protection provided. To the extent that benefits are capitalized in the land values, any governmental role in financing the program could affect the prices paid and received for land. Farm income protection is important not only to farmers but also to their communities. Entire communities may find their economies under stress in years that farmers have poor crops; the severity of this impact may be alleviated through an effective disaster protection program, but may involve substantial Government costs.

Prepared by: Milton Ericksen (ERS), O.P. Blaich and John Subat (OMF), and Jimmy Matthews (Treasury).

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Producer Allotments and Set-Aside

Issue

Acreage allotments serve as a primary instrument in program adminstration. Current allotments, established 15 to 25 years ago, do not accurately reflect existing production patterns on individual farms. The primary issue surrounding updating acreage allotments is equity among producers in the application of programs incorporating allotment provisions.

Background

Commodity programs have an acreage allotment as part of the program structure. This includes quota crops (tobacco, peanuts, and ELS cotton) and nonquota crops (wheat, feed grains, cotton, and rice). For quota crops, the allotment production is generally the maximum that a farmer is allowed to produce. Under current programs, production of nonquota crops is not limited by allotments.

National acreage allotments are apportioned to individual farmers on the basis of historical production. Feed grain allotments were established on the basis of production in 1959-60; for wheat, it is 1952-53; for cotton, mid-fifties; and for rice, 1951-54. Cotton and rice allotments can be transfered within a state through sale, lease, or release and reapportionment, while wheat and feed grain allotments cannot.

Allotments serve three functions under current programs:

(1) When set-aside is required, allotments are used to calculate each participant's share of the set-aside. The Secretary also has the authority to limit crop acreage to a given percentage of the allotment.

(2) Allotments are used as part of the formula for calculating deficiency payments for individual producers. The deficiency payment rate is paid on the allotment acreage times the established yield.

(3) Allotments are used in determining disaster payment amounts. If a producer is prevented from planting or if an individual producer's production is less than two-thirds of his allotment-based production, he is eligible for disaster payments.

Because allotments no longer match production patterns on individual farms, deficiency or disaster payments may be paid to farmers for crops they no longer grow. Other farmers may grow a crop eligible for payments, but because they have no allotment or an allotment considerably smaller than their crop acreage, they will receive a smaller payment than they would be entitled to based on current production patterns. In the event of set-aside requirements, producers who have outdated allotments will not share equitably in the production adjustment burden.

Experience has shown that there is not a one-to-one correspondence between the acreage set-aside and the reduction in crop acreage. Slippage is a measure of the degree to which the acreage reduction in crops falls short of matching the acreage of set-aside. The degree of slippage varies among farms, causing inequities because some farmers have to make full adjustments while other farmers make only partial adjustments. Set-aside acreage has been only about 50-60 percent effective in reducing crop production because of slippage.

Options

There are several ways allotments could be updated. A moving average over recent years could be used, or more recent base years could be selected for individual crops. Another alternative could be a total cropland allotment.

A major problem in establishing new allotments is that some farmers always view the base period selected as abnormal for them, especially if they plan to expand crop area. This problem could be minimized if allotments were transferrable or if provisions were made for annual adjustments.

Two requirements are needed to reduce slippage. One is to accurately classify land in farms so that noncropland does not qualify for set-aside and to prevent farmers from planting crops on land that they would not normally crop if there were no set-aside provisions. In fallow areas, it is necessary to require that bona fide fallow be separate from set-aside. The problem of erosion on uncovered land complicates this requirement.

Implications

Allotments were established to distribute program benefits and to apportion production adjustments to those farmers who were producing program crops at a certain point in time (the "traditional" producer). This prevented farmers without allotments from switching to an allotment crop and sharing in the benefits without also having to meet the required production adjustments. Because of this, allotments have a capitalized value, especially for the quota crops. Although capitalized values are less apparent for nonquota crops, farmers still view the allotment as having value. Any adjustments to reduce or remove allotments from individual farms now holding allotments would likely be resisted.

Prepared by: Milton Ericksen and Leroy Rude (ERS), and Bob Hoffman (Treasury).

References

Use of Land Reserves to Control Agricultural Production, ERS-635, ERS, USDA, Sept. 1976.

Class I Base Plans

Issue

Legislation for Class I base plans and authority for seasonal incentive plans expires at the end of 1977. If continued authorization is to be included in new legislation, documentation must be prepared with other program provisions to meet the legislative schedule.

Background

Some producer cooperatives have operated various types of base plans on a local market basis since the early part of this century. Seasonal incentive plans have been administered under the Federal order system since the 1930's. Class I base plans were not authorized until passage of the Food and Agriculture Act of 1965.

Seasonal incentive plans. Several base and "Louisville" plans have used seasonal price incentives to encourage dairy farmers to adjust production to better fit seasonal market demand. While seasonal variation in milk production is less than it was 20 years ago, coordinating a seasonal supply to meet a fluctuating demand is still a problem. At present, there are 7 seasonal base plans and 10 "Louisville" plans operating in the 50 Federal order markets.

Class I base plans. The Food and Agriculture Act of 1965 amended the Marketing Agreement Act of 1937 to provide authorization for Class I base plans. The legislation's purpose was to reduce surplus milk production and stabilize farmers' income by removing the necessity for dairymen to produce surplus milk to protect their sales in the higher valued Class I market. Each producer was to be given a proportionate share of the Class I utilization, based on his deliveries during a representative period. Deliveries in excess of his base would be priced as surplus milk. Once the base was established, there was no provision for adjustment, but the base could be sold or transferred among producers.

The Agriculture Act of 1970 revised and extended the Class I base plan authority, making it possible for existing producers to earn additional bases and increasing the ease of market entry. These changes made Class I base plans less effective as supply control devices.

The Agriculture and Consumer Protection Act of 1973 extended the Class I base plan provisions of the 1970 Act until December 31, 1977. Class I base plans issued prior to December 31, 1977, may continue in effect to the end of 1980. While authority for Class I base plans has existed for more than 10 years, interest in such plans has been limited. Only 2 of the 50 Federal order markets, Puget Sound and Georgia, have adopted such plans.

Options

Extend present authorization. Both the seasonal and Class I base plans would continue. Authorization to continue Class I base plans beyond 1980

could increase further the capitalization of bases in effect by the end of 1977.

Allow authorization to expire. If provisions relating to seasonal incentive plans were allowed to expire, the authority for such plans would presumably revert back to that granted by the 1937 Act. Louisville plans may be subject to legal challenge because authorization is not explicit in the 1937 Act. If seasonal plans were terminated, the trend toward more uniform seasonal milk production would likely be slowed. In periods of tight supply-demand balances, CCC purchases could be somewhat larger than if the plans were continued. However, during surplus production periods, no significant differences in CCC purchases would be expected.

Termination of Class I base plans would affect the capital asset position of producers in the Georgia and Puget Sound markets because the established bases now have monetary value. Because the present authority for Class I base plans would continue through December 31, 1980, there would be time for adjustment and reduction of economic hardship. Termination might have limited impacts on local milk production, but national supplies would not be significantly affected.

Modify the present authorization. The economic effects would depend on the types of modifications proposed.

Prepared by: John Hanes, Cecil Davison, Charles Shaw, and Richard Fallert (ERS); Peggy Kemper, Sidney Cohen, Ray Voelkel, and Howard Williams (ASCS); Robert March, William Manley, and Joel Blum (AMS).

References

Base Plans in U.S. Milk Markets--Development, Status, and Potential, MRR No. 957, ERS, USDA, June 1972.

Questions and Answers on Federal Milk Marketing Orders, AMS-559, Dairy Division, AMS, USDA, March 1975.

Summary of Major Provisions in Federal Milk Marketing Orders--January 1, 1976, Dairy Division, AMS, USDA, February 1976, pp. 38-39.

Wool Price Support Payments

Issue

The continuation or termination of price support payments to wool producers. Current authorization expires December 31, 1977.

Background

The National Wool Act was established by Congress in 1954 and continued through subsequent agricultural legislation. Its original objective was to encourage increased domestic wool production by supporting the price of wool at a specified minimum level. The program is funded by duties on raw wool and wool textiles, rather than by direct congressional appropriations.

In 1950, domestic wool production amounted to 250 million pounds. An adequate domestic supply was deemed a strategic necessity and consequently the goal of the Act was to raise annual production. However, domestic wool production has trended steadily downward since 1961 to about 150 million pounds. The value of wool has also diminished with the increased use of cotton and synthetic substitute fibers. Nevertheless, the program has been maintained to enhance sheep producers' income, which has been relatively low in recent years.

The level of price support payment varies each year inversely to market prices; in recent years it has been the amount necessary to bring the national average price up to 72 cents per pound. Payments have been made each year except 1973, when prices exceeded the support level. Total payments to producers during 1973-75 averaged less than $20 million annually. Payments for 1976 are estimated at about $5 million.

Options

Allow the program to terminate. The Secretary of Agriculture would still have the discretionary authority under permanent legislation to support producer prices through loans, purchases, or other operations. Projections by the Interagency Wool Estimates Committee of market prices in 1978 and subsequent years place the price of wool at 79 cents per pound and up, higher than the current legal support limit of 72 cents per pound.

Continue the current program. With the average price support at 72 cents, wool production would continue to decline because of diminishing demand and sheep numbers. Program costs over the next few years would be minimal since the average market price of wool is projected to exceed 72 cents per pound.

Increase the support level. An extension of the current program with support prices increased to 83-85 cents per pound would maintain projected annual program costs at no more than $5 to $6 million.

Prepared by: Richard Crom and Sam Evans (ERS); Jasper Womach, Ray Voelkel, and Howard Williams (ASCS).

References

"The National Wool Act of 1954, Its Past Effectiveness and Potential Changes," Staff paper, ERS, USDA, Oct. 1976.

Beekeeper Indemnity Program

Issue

The continuation or termination of authorization for indemnity payments to beekeepers. Current program authorization expires December 31, 1977.

Background

The Agriculture Act of 1970 established the program which was extended through December 31, 1977, by the 1973 Act. Payments, authorized to beekeepers who suffered losses after January 1, 1967, due to toxic pesticides, are graduated according to the degree of loss, but even slight to moderate losses qualify for some payment. Payments totaled $19 million for the 9 years 1967-75, and ranged from $1.7 to $3.0 million annually for the last 4 years of the period. ASCS has encountered difficulties administering this program because of lack of uniformity in inspections and a shortage of qualified inspectors within the agency.

Ten payees have received 20 percent of the 1967-74 payments, however, their damage percentage was in line with losses suffered by other beekeepers whose bees were in the same geographic area. These 10 payees owned an average of 8,480 bee colonies, 2 percent of the U.S. total, during 1972-74.

Options

Extend present legislation. An extension of the present program could cost $2 to $3 million annually.

Allow authorization to expire. The effects on honey and fruit prices would be negligible. An Economic Research Service analysis suggests that the beekeeping industry in most States could survive without the indemnity program. However, a limited number of beekeepers without sufficient capital could be forced out of business if they sustain severe losses from pesticide damage.

Continue program with limited payments. This option would require that procedures for classifying the degree of damage be strengthened. Limiting payments to those colonies which were destroyed or severely damaged would have reduced 1974 program outlays by about one-fourth.

Replace program with an insurance program. The Federal Crop Insurance Corporation (FCIC) has transmitted to Congress a report which concludes that an insurance program could be designed. To attract participation necessary to make the program actuarially feasible, however, FCIC staff estimate that premiums would need to be subsidized by about 50 percent.

Prepared by: Cecil Davison and Fred Hoff (ERS), and John Subat (OMF).

References

"Report of the Beekeeper Indemnity Program," ERS,USDA, Dec. 1976.

"ASCS Program Review: Report of the Beekeeper Indemnity Program Review Team," ASCS Staff Report, Nov. 1976.

Insurance for Beekeepers as a Substitute for the Beekeeper Indemnity Program: An Evaluation, FCIC Report to Congress, Transmitted Feb. 23, 1976.

Dairy Indemnity Program

Issue

The continuation or termination of indemnity payments to dairy farmers and manufacturers for losses resulting from pesticide contamination. Current authorization of such payments expires June 30, 1977.

Background

Since 1964, legislation has authorized payments to dairy farmers whose milk was removed from the market by a public agency because of residues of chemicals registered and approved for use by the Federal Government. Farmers were paid the fair-market value for the condemned milk. In 1970, such indemnification was extended to dairy manufacturers. The 1973 Act extended the authority through June 30, 1977. Payments totaled $2 million for the period January 1, 1964, through June 30, 1976 and have been between $100,000 and $200,000 for each of the past 4 fiscal years.

Options

Extend present legislation. Continued authorization of payments would amount to around $200 thousand annually.

Allow authorization to expire. The annual compensation to the dairy industry has been small; however, many individual farmers and some plants could suffer significant losses if the program were terminated.

Expand eligibility for payments. Eligibility could be broadened to include losses due to other types of chemicals. For example, Michigan dairy farmers who suffered losses because of feed contamination in 1975 and 1976 were not eligible for payments because the chemical was a fire retardant and did not meet the provisions of the law. Payments would increase as more losses qualified for compensation.

Prepared by: Cecil Davison and Charles Shaw (ERS), and Robert Cook (ASCS).

OTHER COMMODITY ISSUES

Dairy Price Support

Issue

The price support level for milk, and the relative support purchase prices for individual dairy products used to accomplish the price support program for milk, are the key issues. These levels are to be announced by April 1, 1977.

Background

Price support activity is carried out under the Agricultural Marketing Act of 1949, as amended, which requires the Secretary of Agriculture to support the price of manufacturing milk at a level that is between 75 and 90 percent of parity and that will assure adequate production of milk to meet current needs, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs. The price support objectives are met through the CCC purchase program by establishing prices and assuring acceptance of cheese, butter, and nonfat dry milk deliveries.

Support at 80 percent of the parity price has been announced for the 1976/77 marketing year. A support price for manufacturing grade milk of $8.13 per hundred pounds was set on April 1, 1976 and raised to $8.26 on October 1, 1976 to reflect 80 percent of parity as of those dates. Manufacturing milk prices remained well above the support level through August, when they peaked at $9.03. Prices subsequently declined sharply. However, because of the 2-month lag in Class I prices, this decline will not be fully reflected in average farm prices until early 1977.

During November, the seasonal low month for milk production, CCC contracted for 0.9 billion pounds of milk equivalent, about triple the total for the first 10 months of 1976. As Government stocks increase in 1977, a crucial aspect will be distribution outlets available to CCC. Traditional outlets have been sharply reduced as food stamp programs replaced the direct food distribution programs. About the only major outlets that remain are the domestic child feeding programs and there may be some potential constraints to these outlets. No significant foreign outlets exist.

The price support decision first involves choosing the level between 75 and 90 percent of parity and then determining the purchase prices for the three products. Currently, purchase prices are designed to result in an $8.41 per hundredweight return for milk to cheese manufacturers and an $8.11 return to butter/powder manufacturers, for an average price to milk producers of $8.26. This "tilt" in product prices was designed to minimize CCC purchases of nonfat dry milk by avoiding an increase in its purchase price and to minimize the increase in the CCC butter purchase price. However, the tilt in favor of cheese prices could cause some difficulties in Federal Order regulated markets since handlers and/or coops must pay the

same price for milk (approximately $8.26) for all manufacturing uses, even though their returns are different when product prices are at support levels.

Options with the Present "Tilt"

In general, changes in farm milk prices due to changes in the support level would be reflected in retail prices of all dairy products.

1. Continue current $8.26 support level. The present $8.26 support price is estimated to be 77.4 percent of parity on April 1, 1977. Given the projected milk-feed price relationships, milk production is estimated at 122.0 billion pounds for marketing year 1977/78. With the projected demand conditions and estimated commercial use, CCC purchases are projected to total 4.2 billion pounds (milk equivalent) at a purchase cost of approximately $407 million.

2. Decrease support price to 75 percent of parity. The support price on April 1, 1977, would be an estimated $8.00. For 1977/78, estimated milk production would be 121.0 billion pounds; CCC purchases, 3.0 billion pounds (milk equivalent); and purchase costs, $302 million.

3. Increase support price to 80 percent of parity. The support price on April 1, 1977, would be $8.54. For 1977/78, milk production would be 123.5 billion pounds; CCC purchases, 6.1 billion pounds (milk equivalent); and purchase costs, $592 million.

4. Increase support price to 85 percent of parity. The support price on April 1, 1977, would be $9.07. For 1977/78, milk production would be 124.8 billion pounds; CCC purchases 8.3 billion pounds (milk equivalent); and purchase costs, $836 million.

5. Increase support price to 90 percent of parity. The support price on April 1, 1977, would be $9.60. For 1977/78, milk production would be 127.0 billion pounds; CCC purchases, 11.4 billion pounds (milk equivalent); and purchase costs, $1.2 billion.

Options With Different Tilt

The current product price tilt can be changed or eliminated under the CCC price support program. Considerations include aligning CCC purchases with available donation outlets, minimization of CCC purchase cost at any given support level, and short- and long-run demand for the specific products.

Prepared by: John Hanes, Cecil Davison, Charles Shaw, and Richard Fallert (ERS); Peggy Kemper and Sidney Cohen (ASCS); and Robert March and Joel Blum (AMS).

References

Milk Pricing, AER No. 315, ERS, USDA, Nov. 1975, pp. 3-5 and 8.

Government's Role in Pricing Fluid Milk in the United States, AER No. 229, ERS, USDA, July 1972, pp. 5, 7, 8.

Dairy Price Support and Related Programs 1949-1968, AER No. 165, ASCS, USDA, July 1969.

Rice

Issue

Issues in early 1977 for rice relate to setting provisions for the final year of the current Act and development of replacement legislation when it expires. A final determination of the need for set-aside for the 1977 crop must be announced by the Secretary before April 1, 1977. Legislation to replace the current Act will need to be developed in early 1977, either as a separate Act or bringing rice into legislation covering the major agricultural commodities.

Background

Rice programs prior to 1976 were based on price supports set at a minimum of 65 percent of parity and linked to the acceptance of production controls by producers. The program resulted in prices above world levels in many years. Production did not shift with comparative advantage (except in 1974/75, when quotas were suspended), and subsidized export programs (P.L. 480 and others) were needed in most years to prevent a huge buildup of rice in CCC inventory.

The United States is a relatively minor producer compared with the rest of the world, but is the largest rice exporter. Most U.S. rice production is centered in a few States, and it is important to the economies of those States.

The Rice Production Act of 1975 (enacted February 1976) substantially changed the rice program. This legislation provided for a target price and deficiency payments, CCC loans, and disaster payment provisions similar to those for the major commodities under the Agriculture and Consumer Protection Act of 1973.

The 1975 Rice Act established and distributed to 1975 rice allotment holders a national rice allotment of 1.8 million acres. This allotment was used as a basis for program benefits (loans, deficiency and disaster payments, etc.). Target price was initially set at $8 per hundredweight and the loan rate at $6 for 1976, to be adjusted thereafter to reflect movements in the Prices Paid Index.

Despite significant declines in acreage and production of rice in 1976, the CCC will probably incur substantial deficiency payments ($140-$150 million) unless world grain production in 1977 is sharply reduced, stimulating exports. Market prices, if both the U.S. and world crops are normal, will likely be less than the target price.

The set-aside issue must be resolved quickly. A preliminary indication (required by the 1975 Act) of the need for set-aside for the 1977 crop is mandatory by the end of 1976. A final determination must be announced by the Secretary not later than April 1, 1977 for the 1977 crop. The Secretary may provide for a set-aside of cropland for rice if he estimates that future carryover will exceed specified levels.

Options

One option is to extend the principal features of the 1975 Rice Act. This could be done by incorporating rice provisions into the legislation developed for feed grains, wheat, and cotton, or by enacting separate legislation for rice. The implications of continuing the present program are for continued accumulation of CCC inventories, despite rising exports.

Deficiency payments of $140-150 million for the 1976 crop could generate pressure for reducing the target price if the concept were continued in new legislation. These large payments could be reduced, however, after a transitionary period of gradual production and price adjustments. Also, the program payment limitation of $55,000 per person might be reduced, but would have the impact of reducing set-aside requirements for many producers, thereby counteracting supply adjustment efforts.

A second option is to let current legislation expire and revert to permanent legislation. The Secretary would then be required to declare marketing quotas, and farmers would probably accept them. Allotments would have to be maintained at the legal minimum of 1.65 million acres to hold down carryover, and higher rice prices could reduce exports by more than 50 percent.

New legislation would likely follow the framework of the 1975 Act rather than establish an all-new program. Changes would be in support rates rather than in the methods used for support.

No matter which option is selected, attention should be given to the size of the acreage allotment. Both the current allotment and the previous minimum resulted in the production of more rice than could be sold at the statutory minimum support price.

Matters related to set-aside include: (1) shall set-aside be used to attempt to control production, and (2) shall compensation be made for voluntary set-aside? Mandatory set-aside may not be effective to control production since the Act simply provides for set-aside of cropland, not rice acreage. A voluntary program for set-aside would be more flexible and effective in controlling rice production, but would require set-aside payments.

Prepared by: Tom Stucker, Jim Driscoll, Russel Barlowe, Alan Walter (ERS); Ray Voelkel (ASCS); Lynn Maish (OMF); Frank Gomme (OGSM); Jim Matthews, Robert Hoffman (Treasury).

References

"Formulating Government Programs for Rice, Peanuts, and ELS Cotton: Economic Considerations," APA Staff Paper, ERS, USDA, Nov. 1976.

Peanuts

Issue

A key issue is whether the minimum allotment level and the minimum support level which are responsible for escalating program costs should be replaced. Program revisions were attempted in 1976 and seem certain to be debated again in 1977. The fundamental question is whether the Acts of 1938 and 1949 should be replaced.

The issue of price differentials applicable to various types of peanuts for the 1976 crop remains unsettled. The differentials announced by USDA on July 6, 1976, were enjoined in litigation brought by Southeastern shellers. The Court of Appeals has ordered the Secretary to undertake a new rule-making to set such differentials.

Background

Peanut legislation has been basically unchanged since 1949. The Secretary of Agriculture is required to proclaim marketing quotas if supplies would be excessive without controls, and to support the price at 75 to 90 percent of the parity price unless quotas are disapproved. Marketing quotas have been proclaimed and approved for every year since 1949, resulting in a national acreage allotment at or above the allowable minimum of 1.61 million acres.

The minimum allotment was set when yields were relatively low. Yields have increased substantially in recent years and acreage allotments have not been reduced accordingly. Minimum support rates make it profitable to grow peanuts, and because peanuts grown on allotments are eligible for support, growers continue to produce on their entire allotment. This rising level of production has been exceeding the demand requirements of traditional users by increasing amounts, yet the allotment cannot be reduced below the statutory minimum. Through the Commodity Credit Corporation, the excess peanut supply must be acquired at the support rate and disposed of at a loss. These losses have been increasing, and have brought pressure to modify existing legislation or enact new legislation to bring peanut supplies in line with demand, thus reducing Government costs.

Changes in peanut legislation were attempted in 1976 (HR 12808). The bill proposed to reduce the minimum acreage allotment but allow farmers to plant in excess of the allotment for export markets. Peanuts grown on the allotment would have been supported at not less than 70 percent of the April parity price. Peanuts grown outside of the allotment would be supported at a lower rate.

Options

One option is to continue with the program as it is now. The problem of rising program costs due to increasing yields would escalate.

A second option is to adopt a target price and loan rate program for peanuts similar to that for the major crops. Moving to such a program featuring loan rates and target prices below recent support levels would cause some problems in the peanut industry. One obvious problem would be the capitalized value of peanut allotments. Transition steps might be necessary to cushion the reduction in government involvement. For example, target prices might be set at a higher level initially to support incomes and then reduced over time.

A third option is to adopt a two-price plan for peanuts. This was the thrust of the proposed legislation in 1976. Under this kind of program, it has been estimated that harvested peanut acreage would likely decrease over 100,000 acres from the 1.5 million acres expected under continuation of the present program. Government losses would be reduced by about $80 million, and aggregate producer returns above cash costs could decrease in the neighborhood of $125 million.

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"Formulating Government Programs for Rice, Peanuts, and ELS Cotton: Economic Considerations," APA Staff Paper, ERS, USDA, Nov. 1976.

Sugar

Issue

The major issues relating to U.S. sugar policy are: the degree of domestic sweetener price stability desired; the nature of price support programs for the domestic sucrose industry; methods of facilitating adjustments within the domestic sucrose and corn sweetener sectors; and the U.S. relationship with the "world market" and with foreign suppliers, who have historically supplied 40-50 percent of domestic sugar demand.

Background

After 40 years of market regulation, the U.S. Sugar Act, which supported domestic prices, expired on December 31, 1974. In response to record high 1974 prices, sugarcane and sugarbeet production around the world rose sharply. In 1975, a 1 million ton increase in world stocks brought sugar prices down to a 15 cents per pound average, in contrast to a 1974 average of 30 cents per pound. A potential 4 million ton increase in ending 1976/77 stocks began to weaken prices further in July 1976. By September, prices averaged 9.8 cents per pound.

In response to sharply declining sugar prices, domestic growers and processors have called for increased import protection in the form of higher duties or restrictive quotas, or both, and for new sugar legislation to reinstitute protection afforded by the Sugar Act. Other segments of the industry and consumer interests strongly oppose a return to a domestic protective system. The introduction of high-fructose corn syrup as a competitor complicates the legislative situation.

The President raised the duty on imported raw sugar from 0.625 cents to 1.875 cents per pound on September 21. Subsequently, the differential between the world and New York spot price widened somewhat, without significantly increasing domestic prices.

Cost estimates for producing, processing, and refining domestic raw cane sugar in 1976 ranged from 17.0 to 20.5 cents per pound. Beet sugar production costs also exhibited wide regional variation, but averaged about 18.6 cents per pound, refined basis. Continuation of current prices for an extended period is likely to result in a marked contraction in domestic production, and reduce earnings in rural areas where crop alternatives would require fewer inputs and not offer the same degree of employment.

Foreign as well as domestic producers are experiencing low or negative returns. However, the current depressed price level will have little or no short-term (through the end of 1977) effect on sugar production levels in foreign nations which supply the United States. Fixed investments in sugar are high and the 4-year cane crop cycle precludes rapid adjustment. Some foreign countries are raising domestic prices to sustain industry earnings, while others are continuing low domestic prices to encourage consumption.

If high prices return, high-fructose corn syrup (HFCS) consumption will expand, further displacing sugar production. High-fructose corn syrup, which is cheaper to produce than sugar and equal in composition to liquid invert sugar, is now produced only in a liquid form. Total production, now equivalent to 0.8 to 1.0 million tons of sugar, is expected to reach 2.5 to 3.0 million tons by 1980. Since production costs permit HFCS to undersell sugar, sugar prices which would guarantee U.S. producers a positive return would provide a price umbrella for HFCS producers. Low sugar prices have slowed but not stopped the expansion of HFCS production.

Long-term contracts signed in 1976 provide for shipments of foreign sugar to U.S. sugar refiners and for payment to foreign producers based on the selling price of sugar or the world market price. These contracts now cover 2.0-2.3 million tons, or 50 percent of our domestic imports. A return to a country quota system would probably lead contract signatories to demand access for their contracted amounts.

International Trade Commission (USITC) Investigation. On September 17, 1976, the Senate Finance Committee requested a Section 201 escape clause investigation on sugar to determine if increasing imports were injuring, or threatening to injure, domestic producers. If the USITC makes a negative finding, that imports are not a cause of injury and import relief is not justified, the President under Headnote 2 of the Tariff Schedule would have the authority to reduce the import quota or raise the tariff in an effort to bring relief to the domestic industry. The imposition of an import quota to improve the position of the domestic industry following a negative finding might adversely affect our relations with foreign suppliers.

Generalized System of Preferences (GSP). Sugar presently is eligible for duty-free treatment under the GSP. Initiated on January 1, 1976, under Title V of the Trade Act of 1974, GSP grants duty-free entry, subject to competitive need limitations and import market shares, of sugar imports from eligible developing countries.

This year, 15 to 20 percent of U.S. sugar imports have entered duty-free under GSP. Concern among domestic producers resulted in the American Farm Bureau's petitioning the Special Trade Representative's office in September for removal of sugar from the GSP list. This petition is under consideration but no decision will be made until after the USITC investigation on sugar is completed in early 1977. However, by March 1, the President must decide on the continued eligibility of sugar and beneficiary countries eligible for GSP.

International Sugar Agreement (ISA). The ISA has existed in one form or another since 1937. Formal negotiations for the new ISA begin April 18, 1977. The U.S. has stated it will participate but as yet our policy position has not been made clear.

Options and Implications

Under existing law the President has the authority to adjust the tariff and the import quota on sugar (now 7 million tons), and establish a price

support program for sugar. The President may set the tariff at any level in the approximate range of 0.625 to 1.875 cents per pound and the quota at any level on a country-by-country or global basis. The Trade Act grants the President the authority to set the tariff above 1.875 cents per pound up to about 2.981 cents per pound; however, this would violate a previous trade agreement, requiring compensation to injured parties under the GATT. The President also has the broad authority to support the price of sugar crops ". . . through loans, purchases, payments, and other operations." Any such program would require restrictions on U.S. sugar imports in the form of tariffs or quotas.

The Sugar Supply Assurance Act will likely be reintroduced. It provides for a variable levy to be collected on all imports. The levy would be equal to the difference between the base price specified in the Act (14.8 cents per pound of raw sugar) and the purchase price. Other programs which may be proposed are a target price program, which could draw sugar under the general agricultural legislation, and programs similar to the bill to extend the Sugar Act which was defeated in June 1974. The old Act established a quota system which regulated supplies of sugar sold in the United States. Quotas were allocated to domestic producers and foreign suppliers. Other provisions included equitable division of returns between growers and processors as well as field workers.

Prepared by: Tom Little (ERS); Paul Pilkauskas (State); James Starkey and Betsy Seastrum (STR); Jim Murphy, Tim Reagan (CIEP); Ray Voelkel, Howard Williams, Eugene Boyles (ASCS), Bob McConnell (FAS); Bill Quinn (Treasury).

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Tobacco

Issues

What action, if any, should be taken to prevent excessive flue-cured tobacco stock accumulation (especially downstalk leaf) by CCC and how can flue-cured tobacco be made more competitive for export.

Background

The flue-cured tobacco program is operating under permanent legislation. The possibility of new legislation derives from the concern about CCC loan stock buildup and escalating price support levels which decrease the competitiveness of some grades of export tobacco. Support levels increased nearly 14 percent in 1976; another 7-percent increase is projected for 1977. Rising support levels have meant that U.S. tobacco prices for a number of years have been substantially above those of most foreign competitors, thus damaging our export position and encouraging increased imports. During the past year, Government loan stocks rose by 70 percent to 250 million pounds.

Flue-cured marketing quotas have been reduced 12 percent for 1977. At the same time, USDA is changing the pricing policy for flue-cured loan stocks from that typically used in past years. To make additional supplies available at more competitive prices, flue-cured tobacco under CCC loan will be priced comparable to the 1976 support prices. For other types of tobacco, quotas must be proclaimed by February 1, 1977, but production of these types is in better balance with their market requirements.

Options

The options are to continue the current program, adopt new legislation which would reduce program costs and make U.S. tobacco more competitive in world markets, or to phase out the program over time. Some people see a basic conflict in supporting production of a commodity which may be a health hazard.

Prepared by: Tom Stucker, Jim Driscoll, Duane Hacklander, Russel Barlowe (ERS); Ray Voelkel (ASCS); Lynn Maish (OMF); Frank Gomme (OGSM); Jim Matthews, Robert Hoffman (Treasury).

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"Tobacco Price Support Programs," Tobacco Situation, TS-152, ERS, USDA, June 1975, pp. 33-36.

"Report of the Tobacco Review Team," ASCS Staff Report, Nov. 1976.

Issue

Whether to bring ELS cotton under general agricultural program legislation.

Background

Changes initiated in 1968 established a "one-price" program for ELS cotton similar to the upland cotton program then in effect. The ELS cotton program is tied to the parity concept, and uses marketing quotas and mandatory acreage allotments for production adjustment. Prices are supported through loans, and direct payments must be such that the loan level plus the direct payment equals a minimum of 65 percent of the parity price. The practice currently followed by USDA is to set the loan level high to reduce the direct payment.

A proposal was made last year to make the ELS cotton program more market oriented, similar to that for upland cotton. A similar movement may arise to bring ELS under the 1977 commodity legislation. Considerable support exists for eliminating allotments.

Options

There are three broad options. The first is to continue the present program without modification. The second is to include ELS cotton in general legislation establishing programs for the major crops. The third option is to phase out the program altogether at this time when the impact would be relatively minor. This would, however, have equity implications for producers now having allotments.

Prepared by: Tom Stucker, Alan Walter, Russel Barlowe, Duane Hacklander, Jim Driscoll (ERS); Ray Voelkel (ASCS); Lynn Maish (OMF); Frank Gomme (OGSM); Jim Matthews, Robert Hoffman (Treasury).

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INTERNATIONAL TRADE, AID, AND DEVELOPMENT

Public Law 480

Issue

Authority to operate programs of agricultural commodity assistance under Public Law 480 expires December 31, 1977. The issue is whether to permit that authority to expire without replacement, to extend that authority with or without amendment, or to seek completely new authority to replace the existing law.

Background

Over its lifespan P.L. 480 programs have maintained and stimulated U.S. farm exports and have had positive effects for the recipient countries. It has:

- helped meet emergency and other food import requirements;

- generated local currencies to finance economic development and agricultural self-help projects;

- raised nutritional levels, particularly of the youngest population groups; and

- contributed to political stability and furthering U.S. foreign policy interests.

With changing U.S. and world conditions, the role of U.S. produced food in alleviating hunger, assisting economic development, and promoting U.S. foreign policy while serving the interests of U.S. agriculture needs to be reexamined.

Exports under P.L. 480 have amounted to about $1 billion during the last few years, generally ranging around 5 percent of total agricultural exports. Between 60 and 75 percent of those exports have been financed under Title I concessional sales programs, with the balance donated under Title II. Under Title I, wheat, rice, and soybean oil are the principal commodities; cotton, tobacco, and feed grains have been minor since 1974. Title II programs have included little rice, and have concentrated more on processed grain-soya-blended foods. During the last two years, Title II programs have also served as outlets for some surplus nonfat dry milk and peanut oil acquired by the CCC under its mandatory price support programs.

As a followup to the World Food Conference, the United States hopes to better link food aid provided under P.L. 480 to the encouragment of local food production in recipient countries. However, program guidelines have yet to be developed to accomplish this end. The most recent amendments to P.L. 480 emphasized agricultural and economic development in the poorest countries, and required that at least 75 percent of all Title I food tonnages be made available to countries with annual per capita GNP's of

$300 or less. With good crops worldwide this year, however, this 75/25 split has become a serious program impediment. Projections for the next few years suggest the possibility of periods of recurring U.S. surpluses and a slackening of demand for U.S. commercial exports. Thus, there may be a need to increase P.L. 480 exports or to redirect the available funds to surplus commodities.

P.L. 480, as amended, has a number of legislative restrictions which have been overtaken by events. Such restriction prohibit trade with countries which have traded with North Vietnam or Cuba; limit programming to Syria and Egypt; require that 75 percent of shipments go to countries with less than $300 per capita income; and call for both a 1.3-million ton minimum distribution under Title II and a $600 million authorization ceiling on Title II programming, which is expected to conflict with the tonnage requirement.

A second category of issues has to do with longstanding rules which require that the P.L. 480 budget be charged with costs of other programs. For example, all CCC price support costs must be charged to P.L. 480 to the extent that price supported commodities are donated under Title II programs. Another requirement is that 50 percent of the ocean freight "differential" costs resulting from the Cargo Preference Act be charged to P.L. 480 for commodities shipped on U.S. flag vessels.

Options

A number of options need to be considered concerning the basic program. These are:

(1) Extend P.L. 480 Without Amendment. In view of uncertainties concerning the international programs, P.L. 480 could be simply extended as an interim measure.

(2) Extend P.L. 480 with Amendments. Some amendments to preserve or expand the present administrative flexibility could be proposed. Consideration may be given to: repeal of the special country exceptions; increase the GNP limit for the 75 percent requirement; include a factor which would automatically adjust the GNP dollar limit for inflation or fluctuation in currency exchange rates; change the allocation requirement for Title II from a tonnage base to a dollar programming base or, apply the 75 percent requirement to a portion of the P.L. 480 food shipments only; and delete or increase the $600 million limit on funding; abandon the 50-percent requirement of the Cargo Preference Act, in view of the large increases in direct assistance to U.S. shipping in the past few years, transfer responsibility for payment of the differential to the Maritime Administration or require P.L. 480 recipients to pay the full cost of transportation on U.S. vessels.

The self-help provisions in the P.L. 480 legislation have been minimally effective because the United States has failed to exercise sufficient leverage to make them effective. In the absence of making changes to provide such leverage administratively or legislatively, the

section could be deleted. Also to be considered is the question of multi-year programming and tying this to economic development. In addition, the USDA role in directing the use of P.L. 480 funds could also be reviewed.

(3) Abandon the current concept of P.L. 480 and provide food assistance through a negotiated international program including food reserves and other mechanisms for providing food assistance and enhancing the development of LDC's.

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Grain Reserves

Issue

Should the U.S. Government develop a grain reserve program or should market forces be relied upon to determine stock levels? If a Government reserve approach is adopted should it be a unilateral or a multilateral effort? Should we continue to negotiate a reserve in the IWC? What should be the objectives for such reserves? How reserves might be managed, who would hold them, and how much such a system might cost are related questions. No particular decision schedule has been established, but action may be required in face of growing U.S. and world grain supplies.

Background

The tight world grain supply situation of the last several years is expected to improve with record crops this year, leading to the likelihood of larger carryover stocks and lower world grain prices. The U.S., in particular, will likely face a buildup in ending wheat stocks this year to 1 billion bushels, the largest carryover since the late 1960's. World wheat prices have substantially weakened from their high in 1973/74.

Administrative action was taken in October 1976 to boost the support prices on grains, particularly wheat. Price support levels affect the accumulation of supplies by the Government. Should farmers not adjust acreage next year, there is a possibility that the private demand for stocks would be saturated, leading to Government acquisition of grain. On the other hand, feed grain stocks are relatively tight. Feed use of wheat is up. Thus, the grain situation is potentially unstable. Small changes in supplies could significantly affect prices in either direction.

The United States has proposed in the International Wheat Council (see subsequent section) development of an international system of nationally held stocks designed to meet shortfalls in world food grain production. However, the prospect of large stocks accumulation in the U.S. reduces concern in other countries about food security and raises the prospect of the U.S. once again in the role of residual supplier.

There are multiple and sometimes conflicting objectives which might be achieved by grain reserves, other stabilization policies, or a combination of policies. Objectives need to be clearly and precisely defined before specific programs can be designed and costed. The objectives for consideration might include some or all of the following: (1) alleviate emergency food shortages at home and abroad, (2) moderate domestic price fluctuations, and thus domestic farm income fluctuations, (3) ensure that export commitments can be met, (4) reduce world price or supply fluctuations to assure stability of access for developing countries, and (5) minimize U.S. Government costs and Government intervention in the agricultural market.

Options

Market-Oriented Option. There is great uncertainty as to the level of stocks the private sector will hold over time. In recent years, the U.S. has generally followed a relatively open market policy, with little Government intervention.

The present GATT trade negotiations provide a forum for bringing about freer trade and a wider sharing of the adjustment burden that results when major crop shortfalls occur. But there has been no significant progress toward this goal. The acceptability of an adjustment approach could be increased if the MTN were successful in lowering trade barriers in the world.

Food Aid Reserve Sub-Option. Some have proposed that the market-oriented approach be coupled with a small reserve for meeting emergency needs in developing countries when they are threatened by famine or face radical increases in the market cost of grain. The Government could encourage the private sector through subsidy to hold this reserve or the Government could hold it directly.

Trade Control Sub-Option. Some would argue that the U.S. should impose trade controls when U.S. supplies were short since many other countries follow this approach. However, export controls would affect U.S. credibility as a dependable supplier and affect the longrun growth in exports and foreign exchange earnings. Controls may also deprive low income countries of needed supplies in tight market situations. Meeting commitments to commercial buyers abroad may, in years of tight demand, substantially reduce availabilities for concessional assistance to the developing countries.

Bilateral Agreement Sub-Option. Another variant on the market-oriented approach is to negotiate bilateral trade arrangements (understandings) to help stabilize purchases in our markets. Already the U.S. has negotiated several trade arrangements in an effort to identify reliable buyers and better anticipate future demands. It is difficult to assess the effects of these arrangements because, except for the U.S.-USSR grains agreement, they are not binding on either party. To the extent that these arrangements are successful, they should help stabilize our trade with a few countries but they will not necessarily assure world or U.S. market stability.

Domestic Grain Reserve Options. The pre-1973 price support program was used mainly to protect farm incomes, and was not designed to serve as a reserve system. But a result of the program was that the Government accumulated large surpluses, which were a burden on taxpayers and tended to preclude upward flexibility in farm prices.

For the present farm program to serve as a grain reserve or buffer stock program, there would need to be specification of appropriate loan rates for accumulating grain stocks, establishment of resale prices, and procedures for adjusting these prices under changing circumstances. Otherwise, establishment of a reserve would only serve as a one-time

windfall to agricultural traders. A decision would have to be made as to what portion of the reserve would be held under loan or extended loan by farmers or their grain cooperatives and what portion, if any, would be owned and controlled by the Government. Further study is also needed on the impact of increased Government holdings of "reserves" on the incentives of private traders. It has been suggested that as Government reserves increase, private reserves fall. Graduated release of reserves may be needed to avoid sudden disposal of reserves. Of particular importance is the range in which prices would fluctuate. The range should be flexible over time and be wide enough to permit efficient resource allocation, and allow prices to seek their longrun equilibrium levels.

In lieu of the loan program for reserve stock management, the Government could purchase directly in the market or it could develop a subsidy program designed to increase participation for holding reserves in the private sector so as to reduce Government outlays from possible acquisition and storage of grain. A subsidy program may not be as effective as the loan program or direct purchase in meeting price objectives, but it might be satisfactory for meeting "food security" objectives in terms of having grain supplies available in times of relative shortage.

Some domestic reserve proposals call for trade monitoring and standby controls to ensure the availability of supplies for the domestic market. Provisions for acreage set-aside and export subsidies may be needed on a standby basis for controlling the accumulation of reserves.

The main issues to be resolved with regard to a domestic reserve program are: (1) establishment of stablization and marketing objectives (2) the role of the Government and private sector, including cooperatives, for carrying reserves, (3) the level of reserves to be held and whether increased Government reserves will immediately trigger a drop in private reserves, and (4) the mechanism for release and acquisition of reserves.

International Grain Reserve Option. As mentioned, the U.S. proposal at the International Wheat Council calls for an international system of nationally held stocks (25 million tons of wheat and 5 million of rice) to provide security against shortfalls in world food grain production. Responsibility for holding reserves would be shared among participants. Internationally agreed upon guidelines, based on quantitative indicators, would be used to assure properly coordinated action on the part of participants.

If the United States should continue efforts toward an international grain reserve system, some linkage between the operation of domestic farm programs involving grain stocks to the operation of the international reserve would likely be required.

If the United States decides to pursue the IWC discussions with a view toward bringing about an interantional reserve system some new action on our part may be required. There are several areas that could involve compromise.

One area deals with the objectives of the agreement and mechanism for release and acquisition of reserves. Other trading countries have

emphasized price stabilization as opposed to "food security" supported by the U.S. as the major objective for such an agreement. In this regard the U.S. has proposed a consultative mechanism triggered by quantitative indicators based on deviations in food grain production and stock levels. Other countries have favored price-based indicators and even linking grain reserves directly to the maintenance of price ranges.

Another unresolved area is the rights and obligation of participants. Many believe for an effective agreement member countries would have to fulfill their obligations under the agreement by holding a stated quantity of reserves and by making them available on a priority basis to participants. The United States market-oriented policy of recent years has raised the question about our willingness to fulfill our obligation under such an agreement.

Another area for negotiation is the size and composition of reserves. The U.S. proposal deals only with food grains. The question of coarse grains is unresolved.

Discussions to date in the IWC have focused on reserve proposals with trade implications that would eventually have to be taken into account in any negotiation of grains in the MTN. One alternative to this approach would be a modest stocks arrangement without trade implications, such as establishment of a small reserve to provide food aid or emergency relief to developing countries.

Legal Considerations

There are unresolved legal question ofs on options for grain reserves. The question whether CCC has authority to place stocks (other than those acquired through price support operations) in a reserves position for extended periods has never been resolved. Price limitations on sales from CCC stocks might present a barrier to unqualified utilization of reserves.

Prepared by: Scott Steele (ERS), Fred Vaznaugh (State), George Shanklin (OGSM), Ray Voelkel (ASCS), Bruce Gardner (CEA), John Harris (OGC).

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International Wheat Agreement

Issue

Should the United States seek to negotiate a new International Wheat Agreement, and if so, what would such an agreement encompass? There will be a need for reevaluation early in 1977 of the U.S. position with regard to a new agreement.

Background

Since February 1975, a policy-level Preparatory Group under the International Wheat Council (IWC) has held a number of meetings to examine the possible bases for a new international agreement. Progress has been stalemated by differing views on the type of agreement and the role of prices and reserve stocks. At the December 2, 1976, regular session of the IWC, it was concluded that the Preparatory Group should meet in early 1977 to see if existing differences have narrowed. If so, a June Council meeting may establish a negotiation timetable. However, other IWC members have not accepted the U.S. proposal for a new agreement that is based solely on a reserves arrangement, although most countries have indicated a willingness to negotiate an agreement that includes provisions for both prices and reserves.

The current agreement contains no economic provisions but does provide for a Food Aid Convention, where members provide a specified amount of grain or cash equivalent to food-deficit developing countries. Wheat agreements prior to 1967 contained minimum and maximum price provisions. However, these were so ambiguous that they permitted almost any pricing actions by competitors to be defined as being in compliance. In 1967, the revised agreement introduced a mechanism for a much higher degree of price discipline. However, the agreement included a number of negotiated advantages for some of the participating countries. When these advantages were exercised, objections were raised and the agreement was dubbed a failure.

Since the current 1971 agreement, now scheduled to expire June 30, 1978, contains none of the traditional provisions regarding prices and rights and obligations of former agreements, most countries have been particularly anxious for reestablishing these features in a new agreement. The U.S. interest in a new agreement has centered primarily on provisions for grain reserves. At the September 1975 Preparatory Group meeting, the U.S. submitted a proposal for establishing an international system of nationally held grain reserves. The responsibility for holding 30 million tons of reserve stocks would be shared among participants (see section on Grain Reserves for further information). The purpose of this reserve would be to provide "food security" against shortfalls in world food grain production rather than to act as a buffer stock for regulating price movements. However, it is the latter point in which other IWC members have shown a strong interest.

Preparatory Group examinations over the past year have shown that the technical difficulties confronting the reestablishment of price provisions are greater than before. Despite these obstacles, virtually all other IWC members are now prepared to engage in a negotiation of a price range which might be supported by either buffer stocks or some type of trade regulating provisions.

As regards the grain reserves aspect of the Preparatory Group's discussions, there are also wide differences. Many countries want to link price provisions to grain reserves. The U.S., and more recently the USSR, have been opposed to this linkage; moreover, the USSR has opposed any negotiations on grain reserves. There are also differences on the size of reserves and rights and obligations under a system.

Reserve discussions in the IWC have focused on proposals with trade implications that would eventually have to be taken into account in any grain negotiations in the Multilateral Trade Negotiations (MTN's). The main conflict that is delaying progress in the IWC as well as in the MTN's is the standoff between the United States and the European Community over negotiations affecting trade in agriculture.

Options

Where price provisions alone are concerned there are three main options for the U.S.: (1) reject any form of substantive price provisions, in which case the current agreement might be allowed to lapse or be extended, (2) accept the pre-1967 form of price provisions, with a possible wider range, but knowing that this could at times limit the volume of U.S. commercial wheat exports, or (3) try to devise a new form of price provisions in which pricing below the minimum would not be precluded.

The main U.S. options for grain reserves in the IWC appear to be to: (1) concede that one of the roles of reserves would be to help keep world trade prices within an agreed range, (2) discontinue discussions and pursue domestic reserve proposals or other unilateral and bilateral policies, or (3) devise a more modest approach, aimed mainly at food security for developing countries, perhaps to be incorporated into the Food Aid Convention. (See section on Grain Reserves for further discussion of options).

An important variant to any of these options is the relationship to feed grains Any agreement will likely have to take account of the adjustment factor in livestock feeding, with consideration of the advantages and disadvantages of extending any reserves or price provisions to include feed grains.

Prepared by: Scott Steele (ERS); Fred Vaznaugh (State); O.P. Blaich (OMF); Larry Hall, Don Novotny (FAS).

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International Commodity Agreements and UNCTAD Integrated Program

Issue

In May 1976, the United Nations Conference on Trade and Development (UNCTAD) passed a resolution "to adopt an integrated commodity program." That program would include commodity discussions which could lead to negotiations for international commodity agreements. While accepting the concensus resolution, the United States agreed only to participate in meetings on commodities, without commitment to negotiate agreements or to undertake other specific measures. Developing countries' see the program as fundamental in their efforts to obtain a more equitable share of world gains from trade. We are committed to discussion of commodity problems case by case.

Several important meetings requiring USDA attention will be coming up early in 1977. Negotiations for agreements are scheduled for sugar (April), cotton and oilseeds (June), and meat (December). Negotiations for the common fund begin on March 7. The common fund is a key part of the program; if created, it could be used to finance market intervention measures or other perceived solutions to problems of individual commodities.

Background

The United States is a member of the coffee, wheat, and tin agreements, but has not joined the recently negotiated cocoa agreement. Only the tin agreement, which is the oldest, may have had limited price stabilizing impact. Many problems will probably develop in trying to reach and implement a series of commodity agreements as envisioned by the UNCTAD Program. Preliminary research does not indicate clearly that the developing countries as a group would benefit from the Program as presently conceived.

Developing countries themselves have reservations about the Integrated Program. Colombia reportedly has asked that coffee by excluded from the UNCTAD Program. And there seems to be increasing awareness by the developing countries of the importance of keeping prices near long-term equilibrium levels if supplies are to be adequate but not in surplus. Recently, there has been reduced emphasis on "indexation" (linking of prices for developing country commodity exports to prices they pay for manufactured imports).

Options and Policy Implications

At least 4 general policy options are relevent, most of which focus on the UNCTAD Program. If it is to be effective, the Program must provide sufficient monitoring, feedback, and flexibility to respond to unforeseen problems and changing conditions. Most of these options have not been analyzed to determine costs and benefits and the impact on U.S. interests. If U.S. interests are to be protected, we may have to explore alternatives and perhaps take some initiatives, rather than continue a relatively passive approach.

Selective Support of Measures. The United States can probably already support many points in the program. We have already taken separate initiatives for some of the specific measures included in the resolution such as increased and liberalized compensatory financing (by the IMF); reduced trade barriers and improved market access (in the Multilateral Trade Negotiations and through the Generalized System of Preferences); and improved developing country infrastructure, production and processing of primary commodities (through a U.S. proposal at Nairobi for an International Resources Bank). The Resources Bank proposal received scant attention, probably because it focused on private, foreign investments which most developing countries distrust.

Case by Case Commodity Agreements. The case by case approach is the present U.S. position. Some commodities are more amenable for agreement between importers and exporters than others, for various reasons. For some commodities the benefits probably would be small and limited to a few countries, which may not be the poorest.

Common Fund for Buffer Stocks. The UNCTAD program includes a common fund to support all commodity buffer stocks, with the idea that coordinated financing will reduce total management and financing costs, while facilitating a number of commodity stabilization programs. However, the actual economies of scale may not be large because generally each commodity has its own special market. And recent experience, when prices for many commodities moved together in the same direction, calls into question the notion that drawings from and replenishment of such a common fund will balance out. A large fund would also present political and management problems. Overall cost estimates from various sources range from about $6 billion to about $30 billion. At the heart of U.S. reservations on the common fund is the conviction that it is based on two faulty premises: (1) that price-stabilizing agreements are the best answer to commodity problems, and (2) that lack of financing has been the chief obstacle to formation of buffer stocks. We find other more substantive reasons why commodity agreements have not proliferated, related to the particular nature of given commodity markets, the perishability of some commodities, and the probable economic infeasibility of buffer stocks for other commodities. The U.S. approach has been to identify the fundamental causes of commodity market malfunction and examine various means of dealing with each of them. In some cases, a price stabilization agreement may be appropriate; in other cases, measures related to trade, investment, marketing or production would be more effective.

Complete Acceptance. Complete acceptance of the Program as proposed would probably not be optimal for the developed or developing countries. In addition, the resolution is vague on many points, so that essentially only the intention, not the structure, is reasonably clear.

Prepared by: Scott Steele and Richard Reidinger (ERS); Arthur Kobler (State); JoAnn Hallquist (FAS).

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DOMESTIC FOOD AID PROGRAMS

Food Stamp Program Reform

Issue

Legislation (P.L. 93-86) authorizing the Food Stamp Program expires on September 30, 1977. Legislation to continue the program is expected to be introduced early in the next Congress.

Background

Program participation peaked at 19.2 million persons in April 1975. Latest participation is 17.0 million in September 1976. Part of that decline is seasonal since April is typically high and September typically the low month of the year. Nevertheless, participation is responding to the improved economic situation. Projections are for participation to remain in the 17 to 18 million range in FY 1977 and 1978.

Costs have also peaked. FY 1976 cost was $5.7 billion. Since food prices have stabilized, food stamp issuance is expected to remain at the $166 level for a household of 4 throughout FY 1977.

The FY 1977 budget of $4.8 billion was approved on the premise that food stamp reform would be in effect, saving $900 million. Since no reform was enacted, the program is currently underfunded. Either (1) a supplemental appropriation or (2) modifications of the program will be necessary to stay within the current budget of $4.8 billion.

Options

1. Do nothing. The program would expire on September 30, 1977.

2. Extend the present program. Program costs for FY 1977 are projected to run slightly below FY 1976. FY 1978 costs would remain relatively stable under the current program structure.

The Agriculture and Consumer Protection Act of 1973 required a complicated procedure for individual determination of eligibility for Supplemental Security Income (SSI) recipients. That Section of the act has been deferred from taking effect each year. The latest deferral (P.L. 94-365) currently expires on June 30, 1977, but the Act does not expire until September 30. Another deferral should be considered.

Likewise, action should be considered on the tax dependency provision of the act that was passed as an amendment (P.L. 94-351), which also expires on September 30, 1977. This provision provides that students are eligible for the program on an individual basis only if their parents do no claim them as dependents. Of course, they may be eligible if their parents are eligible or are independent households.

3. Propose modifications of present programs. A number of issues have been debated in the discussion of food stamp "reform." Some of the items previously debated by the Congress include: (1) limiting eligibility to those whose income is below the poverty level after income deductions, (2) allowing for a standard income deduction of a fixed amount per household in lieu of a multiplicity of itemized deductions from income in determining eligibility, (3) requiring a purchase requirement of a flat percentage of income rather than the current variable rate of approximately 18 to 30 percent, (4) using income actually received during the previous 30 or 90 days prior to application rather than prospective income in the determination of eligibility and benefit levels, (5) elimination of the purchase requirement and providing the current bonus only in the form of stamps, (6) cash out parts of the program, such as providing that cash in lieu of stamps be given to elderly persons qualifying for the program, (7) changing operating procedures such as adding requirements for photo identification, personal signatures on each coupon, etc., (8) changing eligibility for groups which are currently categorically eligible: students, strikers, and members of narcotic and alcoholic treatment centers.

4. Cash out or eliminate the program in favor if (1) a negative income tax or cash supplement program as part of a general welfare reform, or (2) a direct food distribution program such as previously existed for needy families.

Participation probably would rise under a cash program. Thus, cash option costs could exceed the sum total of the programs replaced unless recipient benefits are reduced. An expanded program of nutrition education would be necessary to maintain food consumption.

Participation and costs likely would drop under a direct Food Distribution Program, judging by participation rates in the 5 to 6 million range under the previous program.

Prepared by: P. Royal Shipp, George Hall, and Stephen Hiemstra (FNS); John Berry (ERS); Wen Chow Ko (OMF); and Jimmy Matthews (USTD).

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Food Distribution Program

Issue

Several pieces of legislation affecting the domestic Food Distribution Programs will expire this year. These include:

1. Use of Section 32 and CCC funds for the purchase of foods not in surplus when necessary to maintain levels of direct food distribution for domestic food assistance authorized by law (Section 4(a) of P.L. 93-86). Such food has been purchased for families (mainly Indians), institutions, summer camps, and supplemental food programs.

2. Use of Section 32 and CCC funds to purchase foods for child and elderly feeding programs (Section 10 of P.L. 94-105).

3. The Elderly Feeding Program itself (Older Americans Act, P.L. 94-135, administered by HEW).

Background

Projections, which may differ from budget appropriations for FY 1977 under current services, are as follows:

Elderly Feeding Program	$25.5 million
Suppllemental Food Program	19.4 million
Family Food Distribution	14.0 million
Insitutions	15.0 million
Commodities for School Lunch and Breakfast	
Commodites for Summer and Child-Care Programs	586.0 million

These programs would not necessarily be terminated without extension of legislation (except for the Elderly Program). The economic impacts would be governed by the availability and definition of "surpluses" and food purchased for price support purposes. Prior to August 1973, when P.L. 93-86 was passed, the commodity programs were limited primarily to distribution of foods acquired under price support and surplus removal programs. The main exception was Section 6, NSLP, commodities for use in schools.

Options and Implications

1. To insure continued support of the various food distribution programs at programmed levels, legislation to extend Section 4(a) of P.L. 93-86 would need to be prepared.

2. Any action to extend or modify the Elderly Feeding Program needs to be coordinated with HEW.

One option to consider in extending the Elderly Feeding Program is that of substituting cash in lieu of direct food support through a legislative change in Title VII. Many local programs have experienced difficulty in utilizing USDA foods, and distribution systems have been rather inefficient in many cases because of the small volumes involved.

3. As mentioned in the section on Food Stamp Reform, one option for providing food aid to needy families is to return to a direct food distribution program. Both participation and costs would likely be considerably lower under a direct food program. Nutritional benefits to recipients have generally been less under a direct food program than under the Food Stamp Program because the FSP provides benefits at the margin of need (by use of purchase requirement), whereas direct food supplements tend to replace previous food purchases. However, these findings are based only on case study research. It is also questionable whether the commodity purchase program as now constituted makes a cost-effective contribution to commodity price stabilization for farmers.

4. Another option with respect to schools is to modify the ratio of cash support to direct food support which schools receive under the School Lunch Program. The value of the commodities they receive is equal to a fixed dollar amount per lunch served. The amount, currently 11-3/4 cents, is adjusted each year for changing food prices. (One-fourth of the amount may at the Secretary's option be provided as cash in lieu of comodities.) If sufficient foods (90 percent of the total value) have not been planned for distribution by February 15 of each year, the balance of the programmed support is distributed in the form of cash. (Kansas is an exception; it receives only cash in lieu of commodities.)

In addition to commodities, schools receive a fixed dollar level of cash support (adjusted for food prices semi-annually) for each meal served; schools also get special assistance, in cash, for meals served free or at a reduced price. Any changes in the method or amount of support would require legislation amending the National School Lunch Act.

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Child Nutrition Program--Block Grants

Issue

Two pieces of child nutrition legislation expire on September 30, 1977:

1. Summer Food Service Program for Children (Sec. 13 of P.L. 94-105).

2. Use of Sec. 32 and CCC funds to purchase foods for child and elderly feeding programs (Sec. 10 of P.L. 94-105).

In addition, the current Administration has proposed, along with the FY 1978 budget submission, to establish a comprehensive block grant program in lieu of all existing child nutrition programs, including the summer program. This proposal should either be endorsed, modified, or withdrawn.

Background

The block grant proposal provides support on the basis of a set amount per child for all children in a State from households with incomes below poverty. Currently, reimbursements are on a performance basis--a set fee for all meals served that meet the eligibility requirements, by type of eligibility.

Eligibility for free meals is mandatory up to the poverty level and optional by State up to 125 percent of poverty; reduced price meals must be served up to 195 percent of poverty.

The block grant program is expected to save $784 million in FY 1978, compared with the current program, if it is enacted in time for implementation. Child Nutrition Programs in total would cost about $2.1 billion rather than the $2.8 billion under current services.

The Summer Food Service Program cost about $137.8 million in the Transition Quarter and is projected at about $200 million in FY 1977 if it is continued under present regulations.

Options and Implications

1. If the Summer Program and the commodity programs are to be retained, early submission of legislative proposals will be necessary.

Careful consideration of the legislation extending the Summer Program would appear to be in order. The Program has met with considerable operational problems in certain areas, such as New York City, where investigations have revealed mismanagement and missuse of funds. The Program is plagued with administrative problems because it must meet heavy volume of participation during its short lifespan each summer.

2. The Commodity Program using Section 32 and CCC funds is discussed in a separate issue statement.

3. A decision on the block grant proposal should be made early in the Congress, either to:

a) Propose it and support it,

b) Withdraw it and continue the current programs,

c) Modify it. Proposal modifications have included increasing the basis of entitlement to the current program level of income eligibility, changing the dollar amounts of support per child, retaining nutritional and other program requirements that have been eliminated from the proposed program, and modifying the basis of the grant to reflect changes in the number of meals served (performance).

Prepared by: P. Royal Shipp, George Hall, and Stephen Hiemstra (FNS); John Berry (ERS); Wen Chow Ko (OMF); Jimmy Matthews (USTD).

MARKETING AND REGULATORY ISSUES

Research and Promotion Programs

Issue

USDA has responsibility for administering research and promotion programs authorized under separate legislation for various commodities. A decision will be required in early 1977 on USDA's position relative to support of possible legislation to establish a Wheat and Wheat Foods Research and Education Act.

Background

Legislation designed to improve the competitive position of wheat and wheat products in the marketplace will be introduced early in the 95th Congress. This proposal, similar in scope to other commodity research and promotion programs administered by AMS, would enable wheat producers, processors, end-product manufacturers, and consumers of wheat food to work together to establish and finance research and education programs to promote the use of wheat and wheat products in the United States. The program would be administered by a Wheat Industry Council comprised equally of producer, processor, end-product manufacturer, and consumer organization representatives. The Council's budget program and projects would require the approval of the Secretary before implementation, with the source of funding coming from assessments, in an amount not to exceed 5 cents per hundredweight of processed wheat purchased or transferred, from eligible end-product manufacturers. Refunds would be provided to eligible end-product manufacturers not wishing to participate in the program.

The proposal to be introduced possesses certain program content similarities to the Wheat Research and Promotion Act of 1970 (7 U.S.C. 1292 note), but differs in organizational structure, source of funding, emphasis upon nutrition education, and reimbursement of USDA expenses from assessment funds. As a result of the 1970 Act, the National Wheat Institute (NWI) had a one-time funding of $2.045 million. To date, the NWI has approved 18 projects, 10 of which have been completed. The remaining 8 projects will be completed by June 1978.

The Department recommended against enactment of similar legislation (H.R. 13099) in the 94th Congress, because the bill would have resulted in a duplication of effort. Strong efforts are now underway to obtain new legislative authority because the ongoing program expires in June 1978.

In the new proposal, the rate of assessment will be placed on the end-product manufacturer. Opponents of the legislation argue that this type of assessment could be considered a "tax" which would ultimately be passed on to the consumer.

The proposed bill would result in assessment of an estimated 500 eligible end-product manufacturers, and generate between $2 million (at a

minimum rate of 1 cent per cwt.) and $10 million (at the maximum rate of 5 cents).

Options

Support a wheat promotion bill. The proposed bill could divide the cost of the program between producers and consumers. The method in which assessments are placed on the eligible end-product manufacturers give the bill "tax" implications.

Little is known about the actual benefits of such generic advertising programs or about competition between commodities as additional commodities obtain such legislation. USDA is preparing a task force report on the economic impact of generic promotion programs.

Do not support it. The Department could be critized for discriminating against a particular commodity group. USDA's position has traditionally been one of not objecting to the organization of self-assessment programs by commodity groups to improve their competitive position in the marketplace.

Prepared by: William T. Manley (AMS).

Mississippi River Locks and Dam No. 26

Issue

Legislation will be introduced in the 95th Congress to authorize replacement of Locks and Dam No. 26 at Alton, Illinois. The alternative to building a new lock and dam is to repair the deteriorating existing system. A related issue, whether or not to charge for use of the federally maintained inland waterway system, will be tied in with this legislation or may be considered in separate legislation.

Background

The facility has deteriorated badly and the Corps of Engineers has recently announced that emergency repairs will necessitate a halt in navigation during daylight hours this winter.

Substantial agricultural traffic moves through Locks and Dam 26. Last year, 26 million tons of grain passed through. This year's barge traffic will account for over 80 percent of mid-western grains delivered to export elevators at Louisiana Gulf ports and about 40 percent of all agricultural exports from the upper Midwest. It is estimated that Locks and Dam 26 will reach its full capacity by the early 1980's.

Barge operators are not charged for use of the federally maintained inland waterway system. Railways, the principle competitor of the barges, maintain their right of way without Federal subsidy.

The Department has supported the proposal of the Corps of Engineers to replace Locks and Dam 26 with a larger facility (annual capacity of 86 million tons) consisting of a 1200-foot lock immediately and an additional lock of a size to be determined through analysis of future demand. The Department has taken no official position on the establishment of waterway user charges.

The railroads effectively blocked replacement of the facility by injecting the user charge issue. Most agricultural groups are opposed to user charges on the waterways. The Department of Transportation has endorsed the concept of waterway user charges in their National Transportation Policy.

Options

To support replacement of Locks and Dam 26 could result in decreased costs in the movement of agricultural commodities in the Midwest, and would provide a facility with a higher capacity to meet future demands.

Not to support replacement of the existing facility, but instead support its repair, could result in bottlenecks as the volume of grain continues to grow, with consequent higher costs to midwest agricultural shipments.

To support user fees on the waterways would have the effect of putting more equity into the various public modes of transportation.

Not to support user fees on the waterways condones subsidizing river and barge traffic at the expense of the trucking and rail industries which pay all or a major portion of their costs.

Prepared by: William T. Manley (AMS).

References

The Replacement of Alton Locks and Dam 26, Department of Transportation, Sept. 1975.

"Grain and Fertilizer Movements in Response to Waterway User Charges," Arvin Bunker, _Illinois Agricultural Economics_, Vol. 17, No. 1, Jan. 1977.

Regulatory Reform of the Trucking Industry

Issue

Legislation will be introduced in the 95th Congress calling for regulatory reform of the motor carrier industry.

Background

In early 1976, Congress enacted the Railroad Revitalization and Regulatory Reform Act of 1976 (4R Act) which provided for less economic regulation of the railroads. An Administration legislative proposal for less regulation of the proposed motor carrier industry was introduced last year.

Some provisions of last year's Motor Carrier Reform Act would permit the following:

- Freer entry and exit.

- Operating authority would be broadened both territorially and commodity wise.

- Exempt haulers would be permitted to haul regulated freight on return trips.

- Rates would become more flexible.

Studies show that many trucks return empty. USDA studies on frozen fruits and vegetables, done during the mid-1950's, showed that service improved and rates declined when economic regulation by the ICC was removed. A USDA series of studies on unregulated livestock truck transportation showed that livestock trucking firms were relatively stable and that service provided was satisfactory.

Proponents of regulation, which includes some shippers of agricultural commodities, state that regulation is needed to provide for stability of service and rates and that small shippers and rural areas will suffer from less regulation through higher rates and poorer service.

The Department of Transportation has strongly advocated much less economic regulation of the motor carrier industry. The Department of Agriculture has historically supported the exemption from regulation of trucks hauling unmanufactured agricultural products. USDA supported the legislation for less regulation of the railroads and was in support of last year's motor carrier regulatory reform bill.

Options

Support a regulatory reform bill. This legislation would foster competition in the trucking industry by reducing barriers to entry and restrictive regulations. However, no study has been made on what impact deregulation would have on service and costs.

Do not support a reform bill. Presumably present levels of competition, barriers to entry, and restictive regulations would continue.

Prepared by: William T. Manley (AMS).

Producer Bargaining Legislation

Issue

Producer bargaining legislation has been introduced in each of the last four sessions of Congress. Since producers are again concerned about deteriorating prices for their products, there seems to be a high probability that legislative proposals will again be put forward early in the next Congress. The USDA must be prepared to respond to these proposals or take the initiative in developing favored legislation.

Background

The demise of open assembly markets and the increased use of direct contracting arrangements between producers and processors have led producers to request legislation that will allow them to engage in negotiation for prices and other terms of trade on a more nearly equal basis with processors.

National bargaining legislation has been introduced in recent sessions of Congress as found in H.R. 2834 introduced by Congressman Gerald Ford on January 24, 1973, H.R. 396 introduced by Congressman Hamilton Fish, Jr. on January 14, 1975, and H.R. 6372 introduced by Congressman Bernie Sisk on April 24, 1975.

Primary attention during the last session of Congress was on the Sisk Bill which would amend the Agricultural Fair Practices Act of 1967 by making refusal to bargain in good faith with a group of organized producers an unfair trade practice.

Deteriorating prices for farm crops and lack of improvement in grow-out fees for contact growers have rekindled considerable interest and refocused attention on the pricing issue and the need for new bargaining legislation. A form of legislation stronger than that considered during the last session and more like the Ford and Fish bills is being considered at the State and Federal levels. The latter bills would require an affirmative duty to bargain in good faith with an organized and accredited producer bargaining association.

Options

Resupport the Agricultural Fair Practices Act of 1967. Administration of the Act would remain in USDA.

Propose a National Agricultural Bargaining Board. This independent board would provide standards for the qualification of associations of producers and require an affirmative obligation to bargaining in good faith on the part of processors and producer organizations.

Support a certified bargaining association. This would represent all producers, members and nonmembers alike, for a given area.

Support Local Laws. USDA would propose no bills but would encourage producers to pursue State by State legislation. A patchwork of State laws might result.

Prepared by: Randall Torgerson (FCS).

OTHER ISSUES

Research Organization and Funding

Issue

The new Secretary will have to adopt positions on how agricultural and forestry research is to be organized and coordinated, what level of support it should receive and what the relationship should be between USDA and other departments or organizations with an interest in agricultural research. The latter has become critical as agencies such as EPA and ERDA undertake research on agriculture which becomes the basis for the regulation of agricultural practices or the allocation of resources to the agricultural sector. Some of these issues are already being decided by administrative action while others will be included in proposed legislation, for example, provisions in replacement legislation for the 1973 Act.

Background

World population growth and recent shortfalls in food production have increased concern about our capacity to produce food. The agricultural research establishment has been criticized for its choice of research priorities as well as for the coordination and management of that research.

A number of efforts have been launched which are aimed at increasing the effectiveness of agricultural research. The 1975 National Academy of Science report called for increased funding and certain reforms in the administration of agricultural research. It also recommended high priority research areas. The Agricultural Research Policy Advisory Committee made efforts to identify research priorities in their 1975 working conference on U.S. and world food needs. The National Academy of Sciences has been directed by the President to conduct a study of world food and nutrition. The study has not yet been released, but preliminary drafts indicate that increased support for research and more effective public review and oversight will be recommended.

Several initiatives have already been taken by Congress. In reports issued last year the Office of Technology Assessment and the House Committee on Science and Technology called attention to agricultural research needs and reviewed the way in which agricultural research is organized and administered. The most important legislative initiative was in the form of a bill introduced by Representative Wampler. This bill, HR 11743, would have increased funding; initiated new competetive grants; included non-Land Grant institutions as appropriate institutions for agricultural research; and established a National Agricultural Policy Advisory Board. The Wampler Bill passed the House by a large margin, but never came to a vote in the Senate. Similar legislation will probably be introduced early in the next session of Congress. Such draft bills have been prepared by the staff of the Senate Committee on Agriculture and Forestry and the Land Grant College Association and may be introduced as

part of the general farm legislation. Such a bill would probably have strong support in the House.

Options

The Department will be faced with an early decision as to the position it takes on such legislation. The decision on this and a number of related issues will shape the future complexion of agricultural research. The Department can choose to take an aggressive posture and play a visible leadership role among the various organizations and institutions pushing for reforms and increased support. On the other hand, it can choose to take a passive posture and let other organizations assume the leadership role in pressing for these changes.

Prepared by: John Stovall (ERS).

EMERGING ISSUES

Bilateral Trade--Issues Under Section 301

Numerous bilateral trade issues in the agricultural sector will require action in 1977. Included are issues filed under Section 301 and 201 of the Trade Act of 1974--the unfair trade practices and escape clause provisions--and general bilateral problems.

Section 301 authorizes the President to take action against countries which impose unjustifiable or unreasonable restrictions against U.S. commerce. It provides a complaint procedure whereby interested parties may petition the Special Representative for Trade Negotiations (STR) to conduct a review, with the possibility of public hearings, of such alleged practices and policies. Following this review the case is submitted to the Interagency Trade Policy Committee, which recommends a course of action by the Government.

Egg Albumen

On August 7, 1975, Seymour Foods, Inc. filed a petition with STR alleging unfair trade practices by the EC against U.S. commerce in egg albumen. Consultations with the EC are still in progress.

Minimum Import Prices

The National Canners Association petitioned STR (September 1975) regarding a minimum import price, import licensing, and surety deposit system which the EC established on certain canned fruits, juices, and vegetables. The Trade Policy Working Group recommended action under the General Agreement on Tariffs and Trade (GATT). After unsuccessful consultations with the EC, the issue has been referred to the GATT under the dispute settlement provisions of Article XXIII(2). Hearings are scheduled to begin in January.

EC Malt Subsidies

Great Western Malting Company petitioned STR (November 1975) alleging that the EC's export subsidies on malt were causing Great Western to lose its market in Japan. Consultations with the EC under GATT provisions are expected to begin early in 1977.

Wheat Flour

Millers' National Federation petitioned STR (December 1975) stating that U.S. wheat flour exports to third country markets were being adversely affected by EC export subsidies. Consultations with the EC under GATT are expected early in 1977.

Sugar-Added Levy

The National Canners Association petitioned STR (March 1976) alleging that the variable levy assessed on added sugars in canned fruits and juices imported into the EC is illegal under the GATT. This case is under review and preliminary discussions have been held with the EC.

Non-Fat Dry Milk

The National Soybean Processors Association and the American Soybean Association filed a petition (March 1976) concerning the EC's scheme requiring the mixing of non-fat dry milk in livestock feed, with a consequent reduction in the amount of vegetable meal used. Consultations with the EC under GATT were unsuccessful. Further GATT hearings are expected in early 1977. The compulsory purchase requirement of the scheme was terminated on October 31, 1976. The nature of the EC dairy problem and its chronic surpluses suggest that this problem will continue.

EC Citrus Preferences

The Florida Citrus Commission and the California-Arizona Citrus League, Texas Citrus Mutual, and Texas Citrus Exchange, petitioned STR (November 1976) alleging discrimination resulting from the EC preferential scheme on citrus and citrus products from Mediterranean countries. A public hearing has been requested.

Bilateral Trade--Issues Under Section 201

Section 201 of the Trade Act of 1974 - the escape clause provision - provides import relief when increasing imports injure or threaten to injure a domestic industry. The U.S. International Trade Commission (USITC) has six months to investigate an import relief petition, after which it reports its findings and recommendations to the President. The President has sixty days to make a final decision accepting, rejecting, or modifying the USITC's recommendations, if the USITC finds injury. If the USITC finds no injury or threat of injury, no further action is necessary.

Sugar

On September 17 the Senate Finance Committee requested a Section 201 investigation on sugar in response to declining world and domestic prices. At the same time because of the urgency of the price situation the President declared a temporary tripling of the U.S. sugar duty (from 0.625 cents/lb. to 1.875 cents/lb.) pending the results of the investigation. The USITC investigation must be completed by the statutory deadline of March 17, 1977 (it may be concluded earlier given the urgent interest in this case). If the Commission finds injury, the President will have sixty days to make a determination. A Presidential finding for import relief would necessitate elimination of duty-free status for sugar under GSP, pursuant to Section 503(c) (2) of the Trade Act.

Mushrooms

On September 20, 1976, the President requested a re-opening of the mushroom escape clause case. The USITC had completed one investigation in March of 1976 and the President had proclaimed expedited adjustment assistance on May 17, 1976. Increasing imports over the summer months from Korea and Taiwan raised concern, however, and resulted in the Deputy Special Trade Representative going to Korea and Taiwan to obtain assurances that imports in 1977 would not proceed at a disruptive rate. The USITC case will be completed on March 20, 1977, at which time the President will have sixty days to act if injury is found.

Other Selected Bilateral Trade Issues

Japanese Citrus Fungicide

The Japanese government does not permit importation of fresh citrus which has been treated with two chemical fungicides, ortho phenyl phenol (OPP) and thiabendazole (TBZ), even though these two chemicals are in general use and have been recognized by the Codex Alimertarius. Throughout 1976, U.S. Government officials held numerous high-level discussions with Japanese Government representatives in an effort to obtain approval of OPP and TBZ so that U.S. citrus may be shipped to Japan without undue deterioration in transit. In March the Japanese Health Ministry agreed to consider approval of the fungicides upon receipt of certain test data. Recent tests indicating OPP is not hazardous to human health are under consideration by the Japanese Health Ministry while more data on TBZ is pending. The domestic industry is especially interested that research on these chemicals and consultations with Japanese officials be successfully completed in time for the major citrus export season in late winter of 1977.

Poultry/Cognac

In 1974 the U.S. reduced to $1-1.25 per gallon the $5 per gallon rate on brandy valued at between $9 and $17 per gallon. The U.S. action was taken as a temporary, unilateral, two-year measure, to encourage resolution of outstanding U.S.-EC trade disputes, including moderation of the EC import restrictions on U.S. poultry, especially turkeys and turkey parts. Since 1974, however, EC levies on U.S. poultry exports have been increased.

On November 26 the President issued a proclamation partially restoring duties on imported bottled brandy valued from $13 to $17 per gallon, and on brandy from $9 to $17 per gallon, to the rate of $3 per gallon. An opportunity for a longer range comprehensive resolution in the Multilateral Trade Negotiations in progress in Geneva still exists.

Section 22 Dairy Quotas

Two major dairy exporters, Australia and New Zealand are requesting that the U.S. conduct a review of the Section 22 dairy quotas (butter, cheese, and chocolate crumb) under the auspices of the GATT. Since 1955

the U.S. has had a temporary GATT waiver for its Section 22 quota program. Section 22 quota protection is deemed essential by the U.S. dairy industry, making any such review, whether in this context or in the MTN, politically sensitive.

U.S. Hoof and Mouth Disease Standards

Argentina is requesting consultations on our restriction of beef imported from countries with hoof and mouth disease. Technical discussions are scheduled.

Proposed EC Vegetables Oil Tax

The EC Commission has proposed a tax on imported and domestically produced vegetable, fish, and marine oils to encourage butter consumption at the expense of margarine. This tax would directly affect U.S. vegetable oil exports and indirectly affect U.S. oilseed exports to the EC, which together were valued at $1.6 billion in 1975. Strong U.S. protests have helped to build opposition to the proposed tax within the EC. However, the tax proposal has not been withdrawn and remains under discussion in the EC Council.

Prepared by: Betsy Seastrum (STR), Jim Murphy (CIEP), John Hudson (FAS), Tom O'Herron (State), and Scott Steele (ERS).

Issues in the Multilateral Trade Negotiations

Participants in the current round of MTN's are attempting to finalize negotiations for reducing or eliminating trade barriers by the end of 1977. If the deadline is to be met, several issues must be resolved early in 1977, including the following:

Negotiating Agriculture in Conjunction with Industry

Section 103 of the Trade Act of 1974 commits the U.S. to attempt Joint negotiation of agricultural and industrial questions. The European Community (EC), on the other hand, is pledged to the separate negotiation of the two sectors. This position is based on the EC's desire to preserve its common agricultural policy (CAP).

The opposing views held by the U.S. and EC on the negotiations of agriculture in the MTN have resulted in numerous procedural disputes throughout the negotiations, despite initial agreement in May 1975 that the group working on agriculture and its subgroups would treat agricultural matters "in conjunction with" the work of the other functional groups.

We have recently agreed with the EC to a meeting of Group Agriculture on December 20, 1976, to settle procedural differences to the extent possible in order to allow work to go forward in Group Agriculture and the other groups. However, procedural disputes are likely to surface again in 1977.

Issues in the Meat, Grains, and Dairy Subgroups

The EC has put forward price stabilization proposals--i.e. commodity agreements with pricing and buffer stock provisions.

In the Grains subgroup, where the U.S. has a large stake, there has been considerable discussion of the EC's proposal for an international grains agreement. The U.S. to date has opposed any such agreement with specific price provisions. Talks are also continuing on grains in London at the International Wheat Council and it is agreed that this work will be "folded into" the MTN at the appropriate time.

Agricultural Coverage in the Tariff Formula

The Tariffs Group has been attempting to negotiate a comprehensive tariff-cutting formula for the MTN. To date several countries, including the U.S. and the EC, have submitted proposals. The EC, however, refuses to consider inclusion of agricultural products in the general tariff formula. The U.S. position is that the tariff formula must apply to all products.

Issues in the Non-Tariff Measures Group

Subsidies/Countervailing Duties. The objective of the Subsidies/Countervailing Duty Subgroup of the Non-Tariff Measure Group is negotiation of an international code to prohibit the use of export subsidies.

The U.S. proposed code on subsidies directly relates the use of subsidies to the use of countervailing duties. The U.S. presently has no requirement for proof of injury in its countervailing law, except for products which enter duty-free. All other major trading countries have injury requirements and are calling on the U.S. to adopt one as provided for under GATT rules. However, there is strong domestic opposition to addition of an injury provision to U.S. law.

Quantitative Restrictions. Unlike the Kennedy round, where tariff cutting was the major accomplishment, reduction of nontariff measures, and in particular quantitative restrictions (QR's), is an essential goal of the present MTN. World agricultural trade is especially hampered by QR's.

Standards Code. As a result of procedural disputes, review of the Standards Code as they apply to the health and sanitary aspects of agricultural and tropical products has been delayed.

Tropical Products. In March 1976, the U.S. offered 37 developing countries most-favored-nation concessions on almost 150 tropical products valued at approximately $1 billion annually. The offer was made contingent upon benefiting countries making contributions to the negotiations in accordance with their trade development and financial needs.

Advisory Committees

A final area in the MTN which is crucial to its successful completion is the network of advisory committees mandated by the Trade Act of 1974. An overall policy committee, the Agricultural Policy Advisory Committee, has met several times to give the Special Trade Representative and the Secretary of Agriculture its advice on agricultural policy issues in the MTN. Eight technical advisory committees, organized by commodity groups, have also been meeting regularly to formulate advice on specific technical issues in the negotiations. These committees' advice is being incorporated into overall MTN negotiating strategy. At the end of the negotiations, the committees must report to Congress on the final negotiated package.

Prepared by: James Starkey and Betsy Seastrum (STR), Tom O'Herron (State), Gordon Frazier (FAS), and Scott Steele (ERS).

References

Background and Status of the Multilateral Trade Negotiations, U.S. House of Representatives, Subcommittee on Trade, Committee on Ways and Means, Feb. 4, 1975.

Other Emerging Issues

Perishable Agricultural Commodities Act

This Act, which provides a program to suppress unfair and fraudulent practices in the marketing of fruits and vegetables, faces an operating deficit beginning in Fiscal Year 1977. There is an immediate need to increase the income from license fees to continue this self-supporting program. Costs are increasing and there are fewer firms requiring licenses, although the annual number of actions taken under the Act have remained relatively constant.

No-Strike Legislation

Legislation will be introduced early in 1977 to amend the Labor Management Relations Act to provide that national emergency procedures contained therein may be used to prevent strikes or lock-outs during peak harvest time which would cause loss of agricultural crops. USDA will need to take a position.

Consumer Input

Implementation of the USDA Consumer Representation Plan is anticipated in early 1977. Needed actions will will include selection of consumer coordinators for USDA agencies and ensuring that consumers have an input into regulatory programs decisions.

Cotton Research and Promotion Order

If the amended Cotton Research and Promotion Order is approved by growers in the December 13-17 referendum, the Secretary of Agriculture will prescribe by regulation whether the supplemental assessment rate of 0.4 of one percent will be applied against (1) the current value per bale or (2) an average value determined from current and/or historical cotton prices and converted to a flat rate per bale. It will be necessary that this regulation be issued early in calendar year 1977. Selection between the two methods for collecting the supplemental assessment is likely to be very controversial since some producers favor the current value method while other producers and most collecting handlers prefer the flat rate per bale. (William T. Manley, AMS)

Meat Import Quotas

If import quotas are not proclaimed by January 1, 1977, or voluntary restraint agreements with meat exporting countries are not in effect, the Secretary's March 1977 estimates of imports may, if above the trigger level, require the President to take action. Under certain conditions such as overriding economic or national security interests, the President may increase the quotas, suspend them and negotiate voluntary restraint agreements, or permit unrestricted imports. All of these policy options and/or programs have been used in past years. (Richard Crom, ERS)

The Capper Volstead Act of 1922

Section II of this Act provides that the Secretary shall bring action against any producer cooperative that monopolizes or restrains trade to unduly enhance price. This responsibility is now vested in a committee consisting of the General Counsel and Assistant Secretaries for Agricultural Economics and Marketing and Consumer Services. There is some question as to the capability of the Secretary to carry out his responsibilities under Section II with the existing organizational framework. This has resulted in initiatives by the Federal Trade Commission and Department of Justice. Consideration may need to be given by the Secretary to development of a more effective and visible approach to enforcement of Section II during the early stages of the administration. (Randall E. Torgerson)

Fisheries Assistance Act

A bill is expected to be reintroduced that will provide a framework for updating and modernizing the U.S. fishing industry through Congressional funding and grant provisions. Technical Assistance to fishermen, similar to that provided by the Farmer Cooperative Service to farmers, will also be included to devlop an organized commercial fisheries industry. The proposed bill would give the Department, and specifically the Farmer Cooperative Service, responsibility in this area. USDA will probably be required to take a position on this bill. (Randall E. Torgerson)

Consumer Cooperative Bank Act

A bill is expected to be reintroduced that would establish for consumers a cooperative bank similar to that provided to farmers through the Farm Credit Act of 1933. Initial seed money for the bank and technical assistance to organized consumer groups would be provided for in the bill. Since the Farmer Cooperative Service is the principal federal agency for expertise on cooperatives, it is expected that the USDA will be asked for a position on the bill.

Agricultural Cooperative Transportation. The Interstate Commerce Commission has instituted a rule-making procedure to modify regulations that apply to exempt, non-regulated, agricultural cooperative trucking operations. These modifications would: (1) eliminate supply cooperatives as well as all legitimate transportation cooperatives whose primary purpose is transportation; (2) classify as member business only that portion which originated as raw farm products produced by the members and exclude farm supplies; (3) eliminate trip leasing as a means of returning the trucks under load; (4) require accountability on rates charged and services rendered; (5) enable the ICC to reject a cooperative's notice of intent to haul, thereby establishing a form of licensing. The USDA has maintained a position in support of providing for the freedom of movement of agricultural products and supplies. (Randall E. Torgerson)

CALENDAR OF RELEASE DATES

Date	Economic Research Service	Statistical Reporting Service	Other Agencies
Jan. 3		Poultry Slaughter	
7		Vegetables, Turkeys	Employment, BLS
10		Crop Production	
11		Milk Production	
12			Wholesale Price Index, BLS
13	Livestock and Meat	Egg Products	
17		Crop Production	
18		Sheep and Lambs	
19		Cold Storage	Personal Income; Consumer Price Index, BEA; BLS
21		Prospective Plantings	
		Cattle on Feed	
25		Grain Stocks	
28		Livestock Slaughter; Eggs, Chickens and Turkeys	
31		Ag Prices, Dairy Products	
Feb. 1	Cotton and Wool		
2		Cattle	
3			Wholesale Price Index, BLS
4	Ag Outlook	Poultry Slaughter	Employment, BLS*
7	Fats and Oils		
8	Sugar and Sweetener		
9		Crop Production	
10		Milk Production	
14		Cattle on Feed	
15	Livestock and Meat		
16	Wheat		
17			Personal Income, BEA*
18	Feed, Export Outlook	Cold Storage	Gross National Product, Commerce*
20			Consumer Price Index, BLS*
22		Eggs, Chickens and Turkeys	
24		Farm Labor	
25	Vegetable		
26	Ag Supply and Demand		
28		Ag Prices, Livestock Slaughter	
Mar. 1		Dairy Products	
3		Poultry Slaughter	Wholesale Price Index, BLS*
4			Employment, BLS*
7	Fruit		
8		Vegetables	
9	Ag Outlook, Poultry and Egg	Crop Production	
10	Tobacco	Milk Production	
14	Dairy	Cattle on Feed	
16		Sheep and Lambs	

CALENDAR OF RELEASE DATES

Date	Economic Research Service	Statistical Reporting Service	Other Agencies
17		Hatchery Production	Personal Income, BEA*
18		Cold Storage; Eggs, Chickens and Turkeys	
20			Consumer Price Index, BLS*
21	Livestock and Meat		
22		Hogs and Pigs	
25	National Food	Vegetables; Cold Storage	
28		Livestock Slaughter	
30	Rice	Dairy Products	
31		Agricultural Prices	
Apr. 1		Poultry Slaughter;Meat Animal Production; Wool and Mohair	Employment, BLS*
4		Poultry Production	
6	Ag Outlook		
7		Vegetables	
8		Crop Production	Wholesale Price Index, BLS
11		Milk Production	
13	Livestock and Meat		
14		Prospective Plantings	
19		Cattle on Feed	Personal Income, BEA*
		Cold Storage	
20		Eggs, Chickens and Turkeys	Consumer Price Index, BLS*
21		Grain Stocks	
22	Ag Supply and Demand		
27		Livestock Slaughter	
28	Cotton and Wool		
		Agricultural Prices	
29		Dairy Products	
May 4		Field Crops Production	
5	Fats and Oils	Milk Production, Poultry Slaughter	Wholesale Price Index, BLS
6	Ag Outlook	Vegetables	Employment, BLS*
10	Sugar and Sweetner	Crop Production	
11	Vegetable	Milk Production	
13		Cattle on Feed	
17	Feed		
18	Export Outlook		Personal Income, BEA*
19	Livestock and Meat	Cold Storage; Eggs,	
20			Gross National Product; Consumer Price Index, Commerce, BLS*
		Chickens and Turkeys	
24	Dairy		
26	Wheat		
27		Livestock Slaughter	
31		Dairy Products,Ag Prices	
Jun. 2			Wholesale Price Index, BLS
3		Poultry Slaughter	Employment, BLS*

CALENDAR OF RELEASE DATES			
Date	Economic Research Service	Statistical Reporting Service	Other Agencies
4	Poultry and Egg		
6	Ag. Outlook		
7		Vegetables	
8		Crop Production	
9	National Food, Ag. Supply and Demand	Milk Production	
14	Livestock and Meat	Cattle on Feed	
17		Dairy Products; Cold Storage	Personal Income, BEA*
20	Tobacco	Eggs, Chickens and Turkeys	Consumer Price Index, BLS
23		Grain Stocks; Hogs and Pigs	
24	Ag. Supply and Demand	Vegetables	
27		Livestock Slaughter	
29		Ag. Prices	
July 1	Ag. Outlook	Poultry Slaughter, Dairy Products	Employment, BLS*

(Note: Whenever a * appears next to a title it means that this release date is an approximation. The actual release date may occur a few days earlier or later.)

UNITED STATES DEPARTMENT OF AGRICULTURE

FY 1977 Supplementals Pending
(Dollars in Thousands)

Agency	Amount	Purpose
Office of the General Counsel	$ 106	For increased legal work resulting from the amendment of the Packers and Stockyards Act.
Office of the General Counsel	$ 50	For increased legal work resulting from the amendment of the Grain Standards Act.
Cooperative State Research Service	$2,257	For the Pesticide Impact Assessment Program, which provides for the establishment of USDA and State programs to perform detailed assessments of pesticides having critical agriculture and forestry uses.
Extension Service	$ 911	For the Pesticide Impact Assessment Program.
Federal Grain Inspection Service	$9,404	For the establishment of a Federal Grain Inspection Service to administer increased grain inspection programs necessitated by the amendment of the Grain Standards Act.
Agricultural Research Service	$1,020	For the Pesticide Impact Assessment Program.
Animal and Plant Health Inspection Service	$ 482	For the Pesticide Impact Assessment Program.
Animal and Plant Health Inspection Service	$ 559	For increased regulatory activities directed at the eradication of the Citrus Blackfly.

Agency	Amount	Purpose
Packers and Stockyards Administration	$ 619	For increased program levels due to the amendment of the Packers and Stockyards Act.
Food and Nutrition Service	$3,943	To provide traditional levels of assistance to American Indians under the Food Donations Program.
Federal Crop Insurance Corporation	$ 750	Proposed to be paid from premium income for increased costs of agents' earnings due to increased business.
Federal Crop Insurance Corporation	$10,000	To provide the Corporation with adequate working capital to meet the costs of its current financial activities.
Statistical Reporting Service	$ 627	To cover costs resulting from increased postal rates.
Economic Research Service	$ 720	For the Pesticide Impact Assessment Program.
Forest Service	$207,000	To cover the costs of fighting forest fires.
Forest Service	$ 975	For increased costs for management of coal leasing activities.
Forest Service	$234	For the acquisition of lands and planning of the Alpine Lakes Area.
Office of the Inspector General	$ 396	For increased investigative work resulting from the amendment of the Grain Standards Act.
Department Pay Raise Increases	$64,185	Includes $1,228 in appropriation limitation increases.

POSSIBLE MAJOR FY 1977 SUPPLEMENTALS REQUIRING POLICY DECISIONS

(In addition to supplementals approved for submission with the FY 1978 budget)

Agency	Dollars (000's)	Purpose
Food and Nutrition Service	895,000	FY 1977 Food Stamp Program expenditures are projected to total $5.6 billion. The FY 1977 budget amount is $4.8 billion. The budget amount was based upon reform of the Food Stamp Program, which was not enacted. Thus, a supplemental appropriation or modification of the program is required.
Forest Service	72,614	Funds will probably be requested in 1977 to cover additional costs associated with recent legislation (The Forest Management Act of 1976 and the Federal Land Policy Act of 1976). Estimated costs are for (1) new planning and reporting requirements (+$11.6 million), (2) additional costs for the Forest Roads and Trails program (+$42 million), (3) reducing the reforestation and timber stand improvement backlog (+$13.5 million), (4) creation of a new timber salvage sale program (+$3 million), and (5) providing for cash equalization payments for land exchanges (+$2.5 million).
Soil Conservation Service	10,000	Possible Sec. 216 supplemental request for 1977 watershed emergencies caused by fire, tornado, flood, earthquake, or other natural forces. Local or state organizations request federal assistance to install emergency measures to protect life and property. The Department investigates and authorizes emergency work at eligible locations to the extent that funds are available. The average annual supplemental has been about $10 million
Animal and Plant Health Inspection Service	4,550	Renewal of previously disallowed requests for Meat and Poultry Inspection ($3,100), cattle fever ticks ($750), house protection ($400) and animal welfare ($300).

Agency	Dollars (000's)	Purpose
Agricultural Research Service Cooperative State Research Service Animal and Plant Health Inspection Service Office of the General Counsel	987	Pesticide Impact Assessment - possible further appeal of OMB cuts in supplementals we requested (ARS-$500,000; CSRS-$190,000; APHIS-$187,000; OGC-$110,000).
Economic Research Service Extension Service Agricultural Marketing Service	2,000	To implemental Farmer to Consumer Direct Marketing Act of 1976. Includes: -- $500 for ERS to initiate a survey of direct marketing methods, and -- $750 each for ES and AMS for direct marketing assistance projects.
Food and Nutrition Service	5,350	The FY 1977 budget amount of $22 million for the elderly feeding program is not sufficient to cover automatic escalator benefits provided by law. A supplemental appropriation is required or funds will have to be transferred from Section 32 programs to cover the shortfall.

V. APPENDIX: KEY FOOD AND AGRICULTURE ECONOMIC INDICATORS

Table 1--General Economic Indicators

Period	Gross National Product: Current dollars	Gross National Product: 1972 dollars	Gross National Product: Implicit price deflator	Unemployment Rate	Disposable Personal income: Current dollars	Disposable Personal income: 1972 dollars	Personal consumption expenditures: Total (Current dollars)	Personal consumption expenditures: Food (Current dollars)	Percent of DPI spent on food
	Billions of dollars	Billions of dollars	1972=100	Pct.	- - - - - - - - Billions of dollars - - - - - - - -				
1969-71	993.8	1,087.2	91.4	4.8	686.4	741.0	622.2	116.7	17.0
1971	1,063.4	1,107.5	96.0	5.9	742.8	769.0	668.2	122.0	16.4
1972	1,171.1	1,171.1	100.0	5.6	801.3	801.3	733.0	130.5	16.3
1973	1,306.6	1,235.0	105.8	4.9	901.7	854.7	809.9	146.8	16.3
1974	1,413.2	1,214.0	116.4	5.6	982.9	840.8	887.5	167.0	17.0
1975	1,516.3	1,191.7	127.3	8.5	1,080.9	855.5	973.2	184.8	17.1
1976	1,692.6	1,265.5	133.9	7.7	1,181.8	890.2	1,077.5	198.1	16.8
	Seasonally adjusted at annual rates								
1976:I	1,636.2	1,246.3	131.3	7.6	1,147.6	880.4	1,043.6	194.0	16.9
II	1,675.2	1,260.0	133.0	7.4	1,172.5	890.5	1,064.7	197.3	16.8
III	1,709.8	1,272.2	134.4	7.8	1,190.2	892.0	1,088.5	199.3	16.7
IV	1,750.5	1,284.0	137.0	7.9	1,217.0	898.0	1,113.0	202.0	16.6
1977:I	1,796.0	1,302.0	138.0	7.7	1,249.0	909.0	1,143.0	205.0	16.4
II	1,854.0	1,323.0	141.0	7.3	1,302.0	934.0	1,177.0	213.0	16.4

Source: Dept. of Commerce and Department of Labor; forecast starting with 1976IV by ERS as of 12/20/76.

Table 2-- The Consumer Price Index--Selected Food Categories and all Items, Selected Periods 1/

Period	Meat Poultry and Fish	Dairy Products	Cereal and Bakery	Fruits and vegetables	Food at Home	Food away from Home	All Food	All Items
				1967=100				
1969-71	114.7	111.3	108.7	113.9	112.8	119.2	114.1	115.8
1971	116.8	115.3	113.9	119.1	116.4	126.1	118.4	121.3
1972	128.0	117.1	114.7	125.0	121.6	131.1	123.5	125.3
1973	160.4	127.9	127.7	142.5	141.4	141.4	141.4	133.1
1974	163.9	151.9	166.1	165.8	162.4	159.4	161.7	147.7
1975	178.0	156.6	184.8	171.0	175.8	174.3	175.4	161.2
1976 2/	180	169	181	175	180	186	181	170
1976 I	183.2	168.2	181.2	173.4	179.4	181.9	179.8	167.1
II	180.6	167.7	180.8	177.4	178.9	184.7	180.0	169.2
III	181.6	169.4	180.5	175.5	180.6	187.8	182.0	171.9
IV 2/	173	172	181	174	179	190	182	174
1977 I 2/	180	173	183	175	182	192	184	177
II 2/	182	172	184	181	184	195	186	180

1/ Source: Bureau of Labor Statistics, U.S. Department of Labor, except as noted
2/ Forecast, ERS, USDA

Table 3--Wholesale Price Indexes for Major Commodity Groups
(unadjusted)

Period	All commodities	Industrial commodities	Farm products & processed foods & feeds: Total	Farm products	Processed foods and feeds
		1967 = 100			
1969-71	110.3	110.0	111.2	111.0	111.2
1971	113.9	114.0	113.8	112.9	114.3
1972	119.1	117.9	122.4	125.0	120.8
1973	134.7	125.9	159.1	176.3	148.1
1974	160.1	153.8	177.4	187.7	170.9
1975	174.9	171.5	184.2	186.7	182.6
1976: I	179.4	178.1	182.3	190.3	177.2
II	182.1	180.6	185.4	194.0	179.9
III	184.2	183.6	184.2	192.7	178.8

Source: Department of Labor

Table 4 --Price spreads for beef and pork.

Item	Retail price per lb. 1/	Carcass value 2/	Net farm value 3/	Farm-retail spread: Total	Farm-retail spread: Carcass-retail 4/	Farm-retail spread: Farm-carcass 5/	Farmer's share
	Cents						Percent
Beef, Choice grade							
1969-71 average	99.7	70.9	63.8	35.9	28.8	7.1	64
1971	104.3	75.7	67.8	36.5	28.6	7.9	65
1972	113.8	80.1	72.4	41.4	33.7	7.7	64
1973	135.5	98.1	89.9	45.6	37.4	8.2	66
1974	138.8	97.4	86.1	52.7	41.4	11.3	62
1975	146.0	105.5	92.9	53.1	40.5	12.6	64
1976 6/	138.8	88.6	77.9	60.9	50.2	10.7	56
1976							
I	142.1	89.8	77.7	64.4	52.3	12.1	55
II	141.5	93.0	83.1	58.4	48.5	9.9	59
III	136.1	83.8	73.1	63.0	52.3	10.7	54
IV 6/	135.5	87.6	77.8	57.7	47.9	9.8	57
Pork							
1969-71 average	74.2	56.5	38.0	36.2	17.7	18.5	51
1971	70.3	52.1	32.3	38.0	18.2	19.8	46
1972	83.2	66.3	47.7	35.5	17.9	17.6	57
1973	109.8	87.3	71.5	38.3	22.5	15.8	65
1974	108.2	77.4	60.8	47.4	30.8	16.6	56
1975	135.0	103.8	86.9	48.1	31.2	16.9	64
1976 6/	133.8	93.2	77.7	56.1	40.6	15.5	58
1976							
I	141.5	100.3	86.4	55.1	41.2	13.9	61
II	138.5	100.6	88.7	49.8	37.9	11.9	64
III	137.4	93.1	78.4	59.0	44.3	14.7	57
IV 6/	118.0	78.8	57.2	60.8	39.2	21.6	48

1/ Composite monthly average prices of all cuts adjusted for volume sold at special prices-derived from BLS and food chain prices. 2/ For a quantity equivalent to 1 lb. retail cuts: Beef, 1.41 lb. of carcass beef; Pork, 1.07 lb. of wholesale cuts.
3/ Payment to farmers for quantity of live animal equivalent to 1 retail pound: Beef, 2.28 lb. and pork, 1.97 lb. minus byproduct allowance. 4/ Includes not only gross margin for retailing but also charges made for other marketing services such as fabricating, wholesaling, and in-city transportation. 5/ Measures charges made for livestock marketing, processing, and transportation to city where consumed.
6/ Estimated.
Source: Agricultural Outlook. Estimates were made 12/16/76.

Table 5 --Price Spreads for Market Basket of Farm Foods 1/

Period	Retail cost	Farm value	Farm-retail spread	Farmer's share
	1967 = 100			Percent
1969-71 average	112.8	114.4	111.9	39
1971	115.7	114.4	116.5	38
1972	121.3	125.1	118.9	40
1973	142.3	167.2	126.5	46
1974	161.9	178.4	151.5	43
1975 2/	173.6	187.0	165.3	42
1976 3/	175.4	178.7	173.3	40
1976 2/				
I	176.7	183.4	172.5	40
II	175.3	183.1	170.4	40
III	176.0	178.9	174.2	39
IV 3/	173.5	169.4	176.1	38
1977				
I	174.3	169.7	177.3	38
II	176.6	173.5	178.5	38

1/ Represents all foods originating on U.S. farms sold in retail food stores. The retail cost is a component of the Consumer Price Index published by the Bureau of Labor Statistics. The farm value is the payment to farmers for equivalent quantities of food products less allowance for byproducts. The farm-retail spread is the difference between retail cost and farm value. 2/ Preliminary. 3/ Estimated. Source: Agricultural Outlook. Estimates were made 12/16/76.

Table 6 --Price Spreads for White Pan Bread

Period	Retail price per lb.	Farm value 1/: Wheat	Farm value 1/: All ingredients	Farm-retail spread	Farmer's share
	Cents				Percent
1969-71 average	24.0	2.6	3.4	20.6	14
1971	24.8	2.6	3.5	21.7	14
1972	24.7	2.9	3.8	20.9	15
1973	27.6	4.1	5.5	22.1	20
1974	34.5	5.4	7.9	26.6	23
1975	36.0	4.5	6.8	29.2	19
1976 2/	35.3	3.8	5.6	29.7	16
1976:					
I	35.3	4.4	6.2	29.1	18
II	35.3	4.2	6.1	29.2	17
III	35.4	3.6	5.4	30.0	15
IV 2/	35.1	2.9	4.5	30.6	13

1/ Farm value for wheat is the payment to farmers for 0.867 lb. of wheat less value of byproducts. 2/ Estimated. Source: Agricultural Outlook. Estimates were made 12/16/76.

Table 7 -Prices Received and Paid by Farmers

Period	Prices received by farmers			Prices paid by farmers			Parity Ratio
	All farm products	Crops	Livestock and products	All items interest taxes, and wage rates	Family living items	Production Items	
				1967 = 100			
1969-71	110	102	118	113	114	108	71
1971	113	108	118	120	118	113	69
1972	125	114	136	125	123	121	74
1973	179	175	183	144	133	146	91
1974	192	224	165	166	151	166	85
1975	186	201	172	181	166	182	75
1976	186	198	176	194	176	196	70
1976: I	186	193	181	191	172	193	72
II	192	201	185	194	174	197	73
III	190	207	175	195	177	198	72
IV	178	192	166	194	180	195	67
1977: I	181	195	170	197	182	200	68
II	186	200	174	200	185	201	68

Source: Monthly SRS price reports, forecast starting with 1976IV by ERS as of 12/16/76

Parity ratio is based on 1910-1914=100 price indexes.

Table 8 - -Prices of selected farm inputs, 1969 - 77

(1967 = 100)

Year	Farm Wage rates	Farm machinery 1/	Fertilizer	Farm real estate
1969 - 71 average...	127	116	89	117
1971.....	134	122	91	122
1972.....	142	130	94	132
1973.....	155	139	102	150
1974.....	178	159	167	187
1975.....	192	197	218	214
1976 2/..	213	225	185	244
1977 3/..	224	240	173	269

1/ Preliminary.

2/ Projected.

3/ Machinery other than tractors and self-propelled equipment.

Table 9--Major Crops: Supplies, Use and Prices

Crop	Production	Domestic use	Exports	Ending stocks	Season av. price
CORN:		Million bushels			$/bu.
1969/70-1971/72 Av.	4827	4184	642	933	1.19
1971/72	5641	4387	796	1126	1.08
1972/73	5573	4733	1258	709	1.57
1973/74	5647	4631	1243	483	2.55
1974/75	4664	3641	1149	359	3.03
1975/76 Estimated	5767	4018	1711	399	2.55
1976/77 Projected	6063	4285	1650	528	2.40
		±150	±100	±100	± .20
WHEAT:					
1969/70-1971/72 Av.	1471	795	651	930	1.31
1971/72	1618	847	609	985	1.34
1972/73	1545	801	1131	599	1.76
1973/74	1705	751	1217	339	3.95
1974/75	1796	690	1018	430	4.09
1975/76 Estimated	2135	730	1173	664	3.52
1976/77 Projected	2147	795	1000	1018	3.00
		± 35	± 50	± 50	± .20
SOYBEANS:					
1969/70-1971/72 Av.	1145	802	428	134	2.74
1971/72	1176	786	417	72	3.03
1972/73	1271	804	479	60	4.37
1973/74	1547	897	539	171	5.68
1974/75	1215	780	421	185	6.64
1975/76 Estimated	1521	908	555	244	5.00
1976/77 Projected	1252	871	540	85	7.00
		± 30	± 30	± 25	± .50
COTTON:		Million bales			¢/lb.
1969/70-1971/72 Av.	10.2	8.2	3.4	4.4	24.4
1971/72	10.5	8.3	3.4	3.3	28.2
1972/73	13.7	7.8	5.3	4.2	27.3
1973/74	13.0	7.4	6.1	3.8	44.6
1974/75	11.5	5.9	3.9	5.7	42.9
1975/76 Estimated	8.3	7.3	3.3	3.7	50.1
1976/77 Projected	10.3	6.7	4.5	3.0	--
		±0.3	±0.3	±0.3	

Table 10-- WHEAT AND RICE

Commodity	Marketing year 1/					
	Domestic Measure			Metric Measure 2/		
	1974/75	1975/76	1976/77 Projected	1974/75	1975/76	1976/77 Projected
WHEAT						
Area	Million acres			Million hectares		
Planted	71.4	75.1	80.2	28.9	30.4	32.5
Harvested	65.6	69.6	70.8	26.5	28.2	28.7
Yield per harvested	Bushels per acre			Metric tons per hectare		
unit	27.4	30.7	30.3	1.8	2.1	2.0
	Million bushels			Million metric tons		
Beginning stocks	339	430	664	9.2	11.7	18.1
Production	1,796	2,135	2,147	48.9	58.1	58.4
Imports	3	2	2	0.2	0.1	0.1
Supply total	2,138	2,567	2,813	58.2	69.9	76.6
Domestic						
Food	521	559	550 ± 10	14.2	15.2	15.0
Seed	93	95	95	2.5	2.6	2.6
Feed	76	76	150 ± 25	2.1	2.1	4.1
Domestic, total	690	730	795 ± 35	18.8	19.9	21.6 ±1.0
Exports	1,018	1,173	1,000 ± 50	27.7	31.9	27.2 ±1.4
Disappearance, total	1,708	1,903	1,795 ± 50	46.5	51.8	48.9 ±1.4
Ending stocks	430	664	1,018 ± 50	11.7	18.1	27.7 ±1.4
RICE:						
Area	Million acres			Million hectares		
Allotment	2.10	1.80	1.80	0.85	0.73	0.73
Planted	2.56	2.82	2.51	1.05	1.14	1.02
Harvested	2.54	2.80	2.50	1.04	1.13	1.01
Yield per harvested	Pounds per acre			Metric tons per hectare		
unit	4,432	4,567	4,679	4.97	5.12	5.24
	Million cwt.			Million metric tons		
Beginning stocks	7.8	7.1	36.9	0.35	0.32	1.67
Production	112.4	128.0	117.0	5.10	5.80	5.31
Imports	--	--	--	--	--	--
Supply, total	120.2	135.1	153.9	5.45	6.12	6.98
Domestic	41.0	40.2	42.8 ±1.0	1.86	1.82	1.94 ±0.05
Exports	69.5	56.5	61.5 ±5.0	3.16	2.56	2.79 ±0.23
Disappearance, total	110.5	96.7	104.3 ±5.0	5.01	4.39	4.73 ±0.23
Ending stocks	7.1	36.9	49.6 ±7.0	0.32	1.67	2.25 ±0.32
Difference unaccounted	+2.7	+1.5	--	0.12	+0.06	--

1/ Marketing year beginning June 1 for wheat, August 1 for rice.
2/ Conversion factor: Hectare = 2.471 acres
Metric ton = 2204.6 pounds or 36.7437 bushels (wheat), 22.046 cwt. (rice)

Note At the request of our users we are including a breakdown of domestic use for wheat for the first time.

Prepared by the Interagency Commodity Estimates Committee for Wheat: Paul W. King, Chairman, ASCS; James J. Naive, ERS; Donald J. Novotny, FAS. Rice: George H. Schaefer, Chairman, ASCS; James J. Naive, ERS; Donald J. Novotny, FAS.

Table 11--FEED GRAINS AND CORN

Commodity	Marketing year 1/ Domestic Measure 1974/75	1975/76 Preliminary	1976/77 Projected	Metric Measure 2/ 1974/75	1975/76 Preliminary	1976/77 Projected
FEED GRAINS:						
Area	Million acres			Million hectares		
Planted	122.5	123.1	129.3	49.6	49.8	52.3
Harvested	100.6	104.7	106.6	40.7	42.4	43.1
Yield per harvested	Tons per acre			Metric tons per hectare		
unit	1.64	1.93	1.95	3.69	4.33	4.39
	Million short tons			Million metric tons		
Beginning stocks	23.7	16.8	19.1	21.5	15.2	17.2
Production	165.3	202.4	208.3	150.0	183.5	189.0
Imports	0.6	0.5	0.4	0.5	0.5	0.4
Supply, total	189.6	219.7	227.8	172.0	199.2	206.6
Feed	115.7	127.4	134.2 ±5	105.0	115.6	121.7 ±5
Food, seed, and						
industrial uses	17.7	18.1	18.8	16.1	16.4	17.1
Domestic,						
total	133.4	145.5	153.0 ±5	121.1	132.0	138.8 ±5
Exports	39.4	55.1	53.0 ±4	35.7	50.0	48.1 ±4
Use, total	172.8	200.6	206.0 ±6	156.8	182.0	186.9 ±4
Ending stocks	16.8	19.1	21.8 ±4	15.2	17.2	19.7 ±4
CORN:						
Area	Million acres			Million hectares		
Planted	77.8	77.9	84.1	31.5	31.5	34.0
Harvested	65.4	66.9	71.0	26.5	27.1	28.7
Yield per harvested	Bushels per acre			Metric tons per hectare		
unit	71.4	86.2	85.5	4.47	5.41	5.36
	Million bushels			Million metric tons		
Beginning stocks	483	359	399	12.2	9.1	10.2
Production	4,664	5,767	3/6,063	118.5	146.5	154.0
Imports	2	2	1	0.1	0.1	4/
Supply, total	5,149	6,128	6,463	130.8	155.7	164.2
Feed	3,191	3,553	3,800 ±150	81.1	90.2	96.5 ±4
Food, seed, and						
industrial uses	450	465	485	11.4	11.8	12.3
Domestic, total	3,641	4,018	4,285 ±150	92.5	102.0	108.8 ±4
Exports	1,149	1,711	1,650 ±100	29.2	43.5	41.9 ±3
Use, total	4,790	5,729	5,935 ±100	121.7	145.5	150.7 ±3
Ending stocks	359	399	528 ±100	9.1	10.2	13.5 ±3

1/ Marketing year beginning October 1 for corn and sorghum; new June 1 year for barley and oats, formerly July 1.
2/ Conversion factors: Hectare = 2.471 acres; Metric ton = 2204.6 pounds (feed grains); 39.368 bushels (corn).
3/ For corn, changes between the November 1 forecast and the final estimate have averaged 88 million bushels during the past 10 years ranging from 10 to 243 million bushels. During this 10 year period, the forecast has been above the final estimate 2 times by an average of 34 million bushels and below 8 times by an average of 101 million bushels.
4/ Less than 0.1.

Prepared by the Interagency Commodity Estimates Committee for Feed Grains: Orville I. Overboe, Chairman, ASCS; James J. Naive, ERS; Donald J. Novotny, FAS.

Table 12--SORGHUM, BARLEY, AND OATS

Commodity	Marketing Year 1/					
	Domestic Measure			Metric Measure 2/		
	1974/75	1975/76 Preliminary	1976/77 Projected	1974/75	1975/76 Preliminary	1976/77 Projected
SORGHUM		Bushels per acre			Metric tons per hectare	
Yield per harv. unit	45.3	49.0	49.2	2.85	3.07	3.09
		Million bushels			Million metric tons	
Beginning stocks	61	35	53	1.5	0.9	1.4
Production	629	758	731	16.0	19.2	18.6
Imports	--	--	--	--	--	--
Supply, total	690	793	784	17.5	20.1	20.0
Feed	437	505	522 ±15	11.1	12.8	13.3 ±.4
Food, seed, and industrial uses	6	6	6	0.1	0.1	0.1
Domestic, total	443	511	528 ±15	11.2	12.9	13.4 ±.4
Exports	212	229	200 ±15	5.4	5.8	5.1 ±.4
Use, total	655	740	728 ±15	16.6	18.7	18.5 ±.4
Ending stocks	35	53	56 ±15	0.9	1.4	1.5 ±.4
BARLEY		Bushels per acre			Metric tons per hectare	
Yield per harv. unit	37.2	43.9	44.8	2.00	2.36	2.41
		Million bushels			Million metric tons	
Beginning stocks	146	92	128	3.2	2.0	2.9
Production	304	384	377	6.6	8.4	8.2
Imports	20	16	15	0.4	0.4	0.3
Supply, total	470	492	520	10.2	10.8	11.4
Feed	187	191	180 ±10	4.1	4.2	3.9 ±.2
Food, seed, and industrial uses	149	149	154	3.2	3.2	3.4
Domestic, total	336	340	334 ±10	7.3	7.4	7.3 ±.2
Exports	42	24	45 ±10	0.9	0.5	1.0 ±.2
Use, total	378	364	379 ±10	8.2	7.9	8.3 ±.2
Ending stocks	92	128	141 ±10	2.0	2.9	3.1 ±.2
OATS		Bushels per acre			Metric tons per hectare	
Yield per harv. unit	46.5	48.3	45.4	1.67	1.73	1.63
		Million bushels			Million metric tons	
Beginning stocks	308	224	208	4.5	3.3	3.0
Production	614	658	562	8.9	9.5	8.2
Imports	3/	1	3/	3/	3/	3/
Supply, total	922	883	770	13.4	12.8	11.2
Feed	595	576	555 ±15	8.6	8.4	8.1 ±.2
Food, seed, and industrial uses	84	85	85	1.2	1.2	1.2
Domestic, total	679	661	640 ±15	9.8	9.6	9.3 ±.2
Exports	19	14	10 ±5	0.3	0.2	0.1 ±.1
Use, total	698	675	650 ±15	10.1	9.8	9.4 ±.2
Ending stocks	224	208	120 ±15	3.3	3.0	1.8 ±.2

1/ Marketing year beginning December 1 for sorghum, June 1 for barley and oats.
2/ Conversion factors: Hectare = 2.471 acres. Metric ton = 39.368 bushels (sorghum); 45.930 (barley); and 68.894 (oats).
3/ Less than 500,000 bushels or less than 0.05 million metric tons.

Prepared by the Interagency Commodity Estimates Committee for Feed Grains:
Orville I. Overboe, Chairman, ASCS; James J. Naive, ERS; Donald J. Novotny, FAS.

Table 13-- SOYBEANS AND PRODUCTS

Commodity	Domestic Measure: 1974/75	1975/76 Preliminary	1976/77 Projected		Metric Measure 2/: 1974/75	1975/76 Preliminary	1976/77 Projected	
	Marketing year 1/							
SOYBEANS:								
Area	Million acres					Million hectares		
Planted	53.5	54.6	50.3		21.7	22.1	20.4	
Harvested	52.4	53.6	49.4		21.2	21.7	20.0	
Yield per harvested	Bushels per acre					Metric tons per hectare		
unit	23.2	28.4	25.3		1.56	1.91	1.70	
	Million bushels					Million metric tons		
Beginning stocks	171	185	244		4.7	5.0	6.6	
Production	1,215	1,521	3/1,252		33.1	41.4	34.1	
Supply, total	1,386	1,706	1,496		37.8	46.4	40.7	
Crushings	701	865	790	±30	19.1	23.5	21.5	±0.8
Exports	421	555	540	±30	11.5	15.1	14.7	±0.8
Seed, feed, and residual	79	4/42	81		2.2	4/1.1	2.2	
Disappearance, total	1,201	1,462	1,411	±60	32.8	39.8	38.4	±1.6
Ending stocks	185	244	85	±25	5.0	6.6	2.3	±0.7
SOYBEAN OIL:	Million pounds					Thousand metric tons		
Beginning stocks	794	561	1,254		360	254	569	
Production	7,376	9,630	8,376	±300	3,346	4,368	3,799	±136
Supply, total	8,170	10,191	9,630	±300	3,706	4,623	4,368	±136
Domestic	6,581	7,961	7,600	±250	2,985	3,611	3,447	±113
Exports	1,028	976	1,150	±200	466	443	522	± 91
Disappearance, total	7,609	8,937	8,750	±400	3,451	4,054	3,969	±181
Ending stocks	561	1,254	880	±300	254	569	399	±136
SOYBEAN MEAL:	Thousand short tons					Thousand metric tons		
Beginning stocks	507	358	355		460	325	322	
Production	16,702	20,753	18,760	±750	15,152	18,827	17,019	±680
Supply, total	17,209	21,111	19,115	±750	15,612	19,152	17,341	±680
Domestic	12,552	15,611	13,750	±700	11,387	14,162	12,474	±635
Exports	4,299	5,145	4,800	±300	3,900	4,667	4,354	±272
Disappearance, total	16,851	20,756	18,550	±1000	15,287	18,830	16,828	±907
Ending stocks	358	355	565	±150	325	322	513	±136

1/ Marketing year beginning September 1 for soybeans, October 1 for soybean oil and meal.
2/ Conversion factor: Hectare = 2.471 acres
Metric ton = 2204.6 pounds or 36.7437 bushels.
3/ Changes between the November 1 forecast and the final estimate averaged 25 million bushels during the past decade, ranging from 1 to 80 million bushels. During these 10 years, the November 1 forecast was above the final estimate 7 times by an average of 25 million bushels and below 3 times by an average of 23 million bushels.
4/ Since reported disappearance exceeds calculated disappearance, this implies the 1975 cro was underestimated. Final 1975 production figures will be released in January.

Prepared by the Interagency Commodity Estimates Committee for Soybeans, Cottonseed, and Oils: Glenn H. Pogeler, Chairman, ASCS; George W. Kromer, ERS; Alan E. Holz FAS.

Table 14-- COTTON: UPLAND AND EXTRA LONG STAPLE

Commodity	Marketing year 1/ Domestic Measure 1974/75	1975/76	1976/77 Projected	Metric Measure 2/ 1974/75	1975/76	1976/77 Projected
Area	Million acres			Million hectares		
Planted	13.7	9.5	11.8	5.5	3.8	4.8
Harvested	12.6	8.8	10.9	5.1	3.6	4.4
Yield per harvested	Pounds per acre			Metric tons per hectare		
unit	441	453	451	0.49	0.51	0.51
	Million 480-lb. bales			Million metric tons		
Beginning stocks	3/ 3.8	3/ 5.7	3/ 3.7	0.8	1.2	0.8
Production	11.5	8.3	4/10.3	2.5	1.8	2.2
Supply, total 5/	15.4	14.1	14.0	3.3	3.1	3.0
Mill use	5.9	7.3	6.7 +0.3	1.3	1.6	1.4 +0.1
Exports	3.9	3.3	4.5 +0.3	0.9	0.7	1.0 +0.1
Disappearance, total	9.8	10.6	11.2 +0.3	2.1	2.3	2.4 +0.1
Difference unaccounted 6/	0.1	0.2	0.2	7/	7/	7/
Ending stocks	3/ 5.7	3/ 3.7	3.0 +0.3	1.2	0.8	0.6 +0.1

1/ Marketing year beginning August 1.
2/ Conversion factor: Hectare = 2.471 acres. Metric ton = 2204.6 pounds or 4.59 480-pound bales.
3/ Based on Bureau of Census data.
4/ Differences between the December 1 all cotton forecast and final ginnings during the past 10 years have averaged 144,000 bales, ranging from 72,000 bales in 1966 to 338,000 bales in 1974.
5/ Includes imports.
6/ Difference between ending stocks based on Bureau of Census data and preceding season's supply less distribution. Estimated for 1976/77.
7/ Less than 0.05 million metric tons.

Prepared by the Interagency Commodity Estimates Committee for Cotton: Charles V. Cunningham, Chairman, ASCS; Russell G. Barlowe, ERS; Gordon H. Lloyd, FAS.

Agricultural Supply and Demand Estimates, December 13, 1976.

Table 15-- Agricultural Commodity Support Prices

Marketing year	Commodity								
	Wheat Dol./bu.	Upland Cotton Cents/lb.	Corn Dol./bu.	Sorghum Dol./cwt.	Barley Dol./bu.	Rice Dol./cwt.	Oats Dol./bu.	Rye Dol./bu.	Soybeans Dol./bu.
	--Target Price--								
1974/75	2.05	38.0	1.38	2.34	1.13	--	--	--	--
1975/76	2.05	38.0	1.38	2.34	1.13	--	--	--	--
1976/77	2.29	43.2	1.57	2.66	1.28	8.25	--	--	--
1977/78 1/	2.51	48.8	1.75	2.96	1.43	8.39	--	--	--
	--Loan Rate--								
1969/70	1.25	20.2	1.05	1.61	.83	4.72	.63	1.02	2.25
1970/71	1.25	20.2	1.05	1.61	.83	4.86	.63	1.02	2.25
1971/72	1.25	19.5	1.05	1.73	.81	5.07	.54	.89	2.25
1972/73	1.25	19.5	1.05	1.79	.86	5.27	.54	.89	2.25
1973/74	1.25	19.5	1.05	1.79	.86	6.07	.54	.89	2.25
1974/75	1.37	25.3	1.10	1.88	.90	7.54	.54	.89	2.25
1975/76	1.37	34.3	1.10	1.88	.90	8.52	.54	.89	--
1976/77 2/	2.25	37.1	1.50	2.55	1.22	6.19	.72	1.20	2.50
1977/78 2/	2.25	42.6	1.50	2.55	1.22	6.30	.73	1.20	2.50

1/ Target price projections for 1977/78 were calculated according to the formula specified in the 1973 Act using projected yields and a projected Index of Prices Paid for Production Items, Interest, Taxes, and Wage Rates.
2/ Loan rates for wheat, feed grains, rye and soybeans at levels revised for 1976 and announced for 1977 on October 13, 1976. Rice loan rate for 1977 was increased proportional to rice target price.

Table 16--Summary of U.S. Average Per Acre and Per Unit Production costs, major crops 1975-77

	All Wheat 1/			Corn			Sorghum			Barley		
	1975 (Final)	1976 (Prelim- inary)	1977 (Pro- jected)	1975 (Final)	1976 (Prelim- inary)	1977 (Pro- jected)	1975 (Final)	1976 (Prelim- inary)	1977 (Pro- jected)	1975 (Final)	1976 (Prelim- inary)	1977 (Pro- jected)
Per acre												
Variable	39.50	36.20	37.00	91.21	86.39	89.25	53.25	52.63	54.62	39.15	37.47	38.94
Machinery ownership	16.83	17.50	18.95	22.77	24.23	25.83	22.62	23.91	25.29	18.47	19.43	20.85
Overhead	5.18	5.58	5.83	8.39	9.04	9.44	5.56	5.99	6.26	5.61	6.04	6.31
Management	6.98	5.21	5.33	14.76	14.82	12.98	7.53	7.24	6.89	6.88	6.51	6.10
Total	68.49	64.49	67.11	137.13	134.48	137.50	88.96	89.77	93.06	70.11	69.45	72.20
Land												
Current	33.13	33.02	34.12	75.72	84.11	84.50	34.03	37.07	37.81	39.24	43.44	45.98
Acquisition	22.99	22.75	22.97	54.20	59.42	56.74	24.60	26.31	25.89	25.20	28.01	28.35
Per unit												
Variable	1.39	1.38	1.23-1.41	1.06	1.08	.96-1.07	1.16	1.17	.98-1.14	.96	.96	.90-.99
Machinery ownership	.59	.67	.63-.72	.27	.30	.28-.31	.49	.53	.45-.53	.45	.50	.48-.53
Overhead	.18	.21	.19-.22	.10	.11	.10-.11	.12	.13	.11-.13	.14	.16	.15-.16
Management	.24	.20	.19	.17	.18	.15	.16	.16	.13	.17	.17	.15
Total	2.40	2.46	2.24-2.54	1.60	1.67	1.48-1.64	1.93	1.99	1.67-1.93	1.72	1.79	1.68-1.83
Land												
Current	1.16	1.26	1.21	.88	1.04	.96	.74	.82	.73	.97	1.11	1.12
Acquisition	.81	.87	.81	.63	.74	.64	.54	.58	.50	.62	.72	.68
	--------Bushels-------			-------Bushels-------			---------Bushels-----			-------Bushels-------		
Yield	28.5	26.2	26.2-30.2	85.7	80.5	83.3-93.3	45.8	45.0	47.8-55.8	40.6	38.9	39.5-43.5

Continued

Table 16--Summary of U.S. Average Per Acre and Per Unit Production costs, major crops 1975-77--Continued

	Oats			Soybeans			Rice		
	1975 (Final)	1976 (Preliminary)	1977 (Projected)	1975 (Final)	1976 (Preliminary)	1977 (Projected)	1975 (Final)	1976 (Preliminary)	1977 (Projected)
Per acre									
Variable	26.44	25.39	26.81	47.54	46.90	48.85	216.28	211.71	221.80
Machinery Ownership	14.05	14.55	16.10	21.16	22.70	24.17	43.87	47.14	49.72
Overhead	4.15	4.47	4.67	5.68	6.12	6.39	17.90	19.09	19.94
Management	4.30	3.73	4.05	9.04	11.90	11.23	25.28	20.60	21.92
Total	48.94	48.14	51.63	83.42	87.62	90.64	303.33	298.54	313.38
Land									
Current	46.68	53.71	59.93	60.84	73.93	74.21	67.36	70.43	74.51
Acquisition	25.20	29.18	32.04	41.58	53.48	51.24	51.78	52.99	55.24
Per unit									
Variable	.61	.70	.51-.61	1.70	1.83	1.66-1.85	4.75	4.68	4.63-4.94
Machinery Ownership	.32	.40	.31-.36	.75	.89	.82-.92	.96	1.04	1.03-1.11
Overhead	.10	.12	.09-.11	.20	.24	.22-.24	.39	.42	.42-.44
Management	.10	.10	.08	.32	.46	.40	.56	.45	.47
Total	1.13	1.32	.99-1.16	2.97	3.42	3.10-3.41	6.66	6.59	6.55-6.96
Land									
Current	1.07	1.47	1.24	2.17	2.89	2.66	1.48	1.56	1.61
Acquisition	.58	.80	.66	1.48	2.09	1.84	1.14	1.17	1.19
	---------Bushels---------			---------Bushels---------			---------Hundredweight---------		
Yield	43.6	36.5	44.2-52.2	28.03	25.6	26.4-29.4	45.54	45.28	44.9-47.9

Continued

Table 16--Summary of U.S. Average Per Acre and Per Unit Production costs, major crops 1975-77--Continued

	Cotton 2/			Flaxseed			Peanuts		
	1975 (Final)	1976 (Prelim-inary)	1977 (Pro-jected)	1975 (Final)	1976 (Prelim-inary)	1977 (Pro-jected)	1975 (Final)	1976 (Prelim-inary)	1977 (Pro-jected)
Per acre									
Variable	143.99	152.17	161.24	25.79	25.55	26.85	202.29	204.73	214.35
Machinery ownership	46.92	51.93	55.41	15.62	16.78	17.90	30.67	32.29	34.23
Overhead	9.52	10.44	10.91	4.27	4.60	4.80	16.18	17.43	18.20
Management	14.54	18.65	17.83	4.16	3.67	4.37	34.75	35.85	41.58
Total	214.97	233.19	245.39	49.84	50.60	53.92	283.89	290.30	308.36
Land									
Current	43.15	55.62	52.07	20.81	21.02	23.49	73.75	77.65	85.81
Acquisition	31.31	43.51	38.89	15.00	14.43	16.01	56.18	59.88	66.48
Per unit									
Variable	.346	.361	.338-.387	2.83	3.65	2.53-3.12	.080	.083	.075-.081
Machinery ownership	.113	.123	.116-.133	1.72	2.40	1.69-2.08	.012	.013	.012-.013
Overhead	.023	.025	.023-.026	.47	.65	.45-.56	.006	.007	.007-.007
Management	.035	.044	.040	.46	.52	.46	.014	.014	.015
Total	.517	.553	.517-.586	5.48	7.22	5.13-6.22	.112	.117	.019-.116
Land									
Current	.104	.132	.116	2.29	3.00	2.45	.029	.031	.031
Acquisition	.075	.103	.087	1.65	2.06	1.67	.022	.024	.024
	----------Pounds---------			----------Bushels---------			----------Bushels-----------		
Yield	416	422	417-477	9.1	7.0	8.6-10.6	2533	2474	2650-2850

Table 17-- Livestock Production

Period	Beef 1/	Pork 1/	Broilers 1/	Eggs	Milk
	Mil. lb.	Mil. lb.	Mil. lb.	Bil. Eggs	Bil. lb.
1969-71	21,376	13,543	6,975	68.7	117.2
1971	21,697	14,606	7,281	70.2	118.5
1972	22,218	13,460	7,823	69.5	119.9
1973	21,088	12,578	7,786	66.6	115.4
1974	22,844	13,583	7,917	65.9	115.6
1975	23,673	11,314	7,966	64.3	115.5
1976	25,751	12,230	9,002	64.6	120.2
1976 I	6,491	2,895	2,116	16.3	29.0
II	6,143	2,782	2,314	16.0	32.5
III	6,617	2,953	2,372	16.0	30.2
IV 2/	6,500	3,600	2,200	16.3	28.5
1977 I 2/	6,000	3,550	2,240	16.5	29.5
II 2/	6,000	3,300	2,360	16.3	33.0

1/ Commercial
2/ Forecast

Table 18-- Livestock Prices

Period	Steers Omaha choice	Hogs 7- Mkt.	Broilers 9-city	Eggs N.Y., gr. A large	Milk all sold to plants
	$/cwt.	$/cwt.	¢/lb.	¢/doz.	$/cwt.
1969-71	30.40	21.37	27.5	41.3	5.69
1971	32.39	18.45	27.2	34.4	5.87
1972	35.78	26.67	28.1	35.2	6.07
1973	44.54	40.27	42.2	59.8	7.14
1974	41.89	35.12	38.2	58.2	8.33
1975	44.61	48.32	45.1	57.8	8.75
1976	39.10	43.52	41.1	64.6	9.70
1976 I	38.71	47.99	42.2	61.9	9.90
II	41.42	49.19	41.7	57.6	9.24
III	37.30	43.88	41.5	66.9	9.68
IV 2/	39.00	33.00	35.0	72.0	9.90
1977 I 2/	42.00	34.00	37.0	65.0	9.35
II 2/	44.00	36.00	37.0	56.0	9.15

2/ Forecast

Table 19--Livestock, poultry and milk--feed price ratios

Period	Hog/corn 1/	Beef/steer/ Corn, Omaha 2/	Milk/feed 3/	Egg/feed 4/	Broiler/feed 5/	Turkey/feed 6/
1969-71	17.2	23.8	1.73	9.5	3.0	4.8
1971	14.2	24.2	1.71	7.6	2.8	4.6
1972	23.3	28.0	1.73	7.2	2.9	4.5
1973	21.3	21.6	1.46	7.9	3.3	4.4
1974	11.8	13.7	1.34	7.0	2.6	3.2
1975	17.1	15.8	1.40	7.2	3.2	4.0
1976 7/	17.2	15.3	1.57	7.8	2.8	3.6
1976 I	19.0	14.9	1.68	8.5	3.1	4.0
II	18.4	15.2	1.51	7.3	3.0	3.8
III	16.1	13.8	1.49	7.5	2.7	3.4
IV 7/	15.5	17.2	1.63	8.6	2.3	3.5

1/ Number of bushels of corn equal in value to 100 lbs. of hog liveweight.

2/ Based on price of beef steers 900-1100 pounds, Choice grade.

3/ Pounds of concentrate ration equal in value to one lb. whole milk.

4/ Number of pounds of laying feed equal in value to one dozen eggs.

5/ Number of pounds of broiler grower feed equal in value to one lb. broiler liveweight.

6/ Pounds of turkey grower feed equal in value to one lb. turkey liveweight.

7/ Estimated.

Table 20-Farm Income and Related Statistics

Period	Volume of farm marketings			Realized gross income					Production expenses	Realized net farm income	Value of inventory change	Total net farm income	
	Total	Livestock and products	Crops	Cash receipts from marketings: Total	Livestock and products	Crops	Nonmoney and other incl. govt.	Total				Current dollars	1967 dollars 1/
	1967 = 100			Billions of dollars									
1969-71	107	104	111	50.5	21.0	29.5	8.0	58.5	44.6	13.9	.5	14.4	12.6
1971	110	108	113	52.9	22.3	30.6	7.7	60.6	47.4	13.2	1.4	14.6	12.4
1972	113	109	118	61.2	35.7	25.5	8.9	70.1	52.3	17.8	.9	18.7	15.2
1973	113	105	126	87.1	46.0	41.1	8.4	95.5	65.6	29.9	3.4	33.3	25.1
1974	111	104	121	92.6	41.4	51.2	7.6	100.2	72.4	27.8	-1.3	26.5	17.6
1975	115	106	128	89.6	42.9	46.7	8.6	98.2	75.5	22.7	2.9	25.6	15.4
1976 2/	121	113	132	95	47	48	9	104	81	23 (22-24)	---	---	---

1/ Current dollar income deflated by the index of prices paid by farmers for family living items on a 1967 base.
2/ Preliminary; revised estimates for all quarters of 1976 and the year as a whole will be made in early January 1977. The probability that realized net farm income will fall within this range is very high.

Table 21--U.S. agricultural exports: Value by commodity group

Year 1/	Grains and feeds	Oilseeds and products	Cotton incl. linters	Tobacco	Fruits, nuts, vegetables	Livestock and products	Dairy products	Poultry and products	Other	Total
	Million dollars									
1969-71 Average	2,593	1,672	395	554	553	620	143	80	156	6,766
1970/71	2,949	2,082	497	570	568	687	153	80	167	7,753
1971/72	2,839	2,235	534	570	659	727	218	82	182	8,046
1972/73	5,630	3,507	756	640	790	1,169	86	98	226	12,902
1973/74	10,820	5,225	1,311	814	1,067	1,551	65	143	297	21,293
1974/75	11,852	4,753	1,055	897	1,221	1,387	143	143	403	21,854
1975/76	12,161	4,692	919	928	1,463	1,847	131	235	383	22,759
1976/77 Forecast	10,000	6,100	1,700	1,000	1,500	1,700	300	300	300	22,900

1/ 1969-1974 on July-June year
1975-1977 on Oct-Sept. year

Table 22--U.S. agricultural exports: Volume of selected commodities

Year 1/	Wheat and flour	Feed grains	Rice	Soybeans	Vegetable oils	Oilcake and meal	Cotton incl. linters	Tobacco	Fresh fruits	Animal fats	Total
	Million metric tons										
1969-71 Average	16.822	17.930	1.737	10.176	.834	3.496	.736	.267	.777	1.141	53.916
1970/71	19.764	18.958	1.675	11.563	1.076	4.087	.846	.264	.779	1.293	60.305
1971/72	16.945	20.803	1.701	11.742	1.103	3.978	.755	.253	.946	1.217	59.443
1972/73	32.037	35.371	1.938	13.753	1.059	4.802	1.081	.268	.987	1.153	92.449
1973/74	31.047	43.735	1.582	14.046	1.051	4.983	1.324	.313	1.096	1.183	100.360
1974/75	30.117	35.058	2.158	11.485	.918	4.074	.904	.274	1.301	1.014	87.303
1975/76	30.882	49.853	1.883	15.050	.898	4.869	.740	.273	1.372	1.026	106.846
1976/77 Forecast	26.100	47.900	2.000	14.700	1.000	4.500	1.000	.300	1.400	1.100	100.000

1/ 1969-1974 on July-June year
1975-1977 on Oct.-Sept. year

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Table 23-World Production and Trade of Major Crops, 1969-71 average and 1970/71-1976/77

Commodity		Unit	Average 1969-71	1970/71	1971/72	1972/73	1973/74	Revised 1974/75	Preliminary 1975/76	Forecast 1976/77
WHEAT										
Area		million hect	216.4	206.9	212.8	210.8	216.5	220.5	226.5	229.8
Yield		MT/hect	1.47	1.53	1.64	1.63	1.72	1.62	1.54	1.76
Production		million MT	318.2	315.8	348.4	343.4	371.6	356.5	349.2	403.6
Trade 1/		million MT	53.8	56.4	55.6	70.8	72.6	68.0	73.1	65.1
COARSE GRAINS 2/										
Area		million hect	337.6	339.6	340.8	337.7	350.0	348.4	357.3	372.1
Yield		MT/hect	1.67	1.68	1.82	1.78	1.88	1.78	1.77	1.84
Production		million MT	561.8	569.0	621.7	602.4	659.6	620.2	632.4	683.0
Trade 1/		million MT	46.7	53.3	55.5	69.0	80.9	69.3	87.1	83.4
RICE										
Area		million hect	130.5	131.3	131.6	130.0	134.8	137.3	141.1	140.8
Yield milled		MT/hect	1.55	1.59	1.61	1.57	1.62	1.64	1.70	1.66
Production milled		million MT	202.3	208.9	211.9	204.1	219.0	224.7	239.3	234.1
Trade 3/ milled		million MT	7.4	7.9	8.1	8.2	[illegible].7	7.7	7.7	7.6
TOTAL GRAINS										
Area		million hect	684.5	677.8	685.2	678.5	701.3	706.2	724.9	742.7
Yield		MT/hect	1.58	1.61	1.72	1.69	1.78	1.70	1.68	1.78
Production		million MT	1,082.3	1,093.7	1,182.0	1,149.9	1,250.2	1,201.4	1,202.9	1,320.7
Trade		million MT	111.3	117.6	119.2	148.0	161.2	145.0	167.9	156.1
OIL/MEAL 4/										
Area 5/		million hect	69.8	72.7	73.2	75.1	80.7	81.5	84.4	82.1
Meal 6/:	Production	million MT	52.9	54.7	55.8	57.3	68.1	63.2	71.2	67.7
	Trade	million MT	23.1	24.5	25.6	25.6	27.3	27.1	32.4	33.8
Oil 7/ :	Production	million MT	40.2	42.3	43.5	42.6	47.4	46.2	48.7	48.2
	Trade	million MT	11.9	12.6	13.3	13.3	13.6	13.7	15.3	16.0
COTTON										
Area		million hect	31.9	31.7	33.2	33.7	32.8	33.3	30.1	31.4
Yield		MT/hect	.36	.37	.39	.41	.42	.42	.40	.41
Production		million MT	11.7	11.7	13.0	13.8	13.9	14.1	12.0	12.8
Trade		million MT	3.8	4.0	4.0	4.5	4.3	3.8	4.1	3.8
TOTAL AREA		million hect	786.3	782.2	791.6	787.3	814.8	821.0	839.4	856.2
TOTAL TRADE		million MT	150.1	158.7	162.1	191.4	206.4	189.6	219.7	209.7

1/ July-June Year. 2/ Includes rye-barley-oats-corn-sorghum-millet & mixed grains. 3/ Calendar Year. 4/ Series revised to include world production and trade in meal and oil. 5/ Includes soybeans, shelled basis, rapeseed, sunflowerseed, flaxseed and peanut. 6/Includes soybean, fish, peanut, sunflower, cotton linseed, rapeseed, copra and palm kernel meal expressed in terms of 44 percent soybean meal. 7/ Includes animal, vegetable and marine oils and fats.